

CARES Act

Last night the President signed into law the Coronavirus Aid, Relief and Economic Security (CARES) Act. The CARES Act is designed to boost the economy by providing over \$2 trillion in relief, ranging from individual rebates to increased unemployment benefits to tax breaks for businesses. Below is a summary of the important highlights, and a link to the full bill can be found [here](#).

Recovery Rebates for Individuals:

- The Act provides for payments of \$1,200 for singles and heads of households (\$2,400 for married couples filing joint returns), and a \$500 payment per qualifying child dependent under age 17. The rebates phase out at a 5% rate above the following adjusted gross income (AGI) levels: \$75,000 (single)/\$112,500 (head of household)/\$150,000 (joint).
- Eligibility will be determined based upon 2019 (if filed) or 2018 tax returns, or in the absence of a return being filed, the Social Security Benefit Statement (Form SSA-1099). An individual who is claimed as a dependent on another individual's tax return is not eligible for the payment.

Unemployment benefits:

- The Act extends unemployment benefits for up to 39 weeks to individuals who are unemployed, or unable or unavailable to work because, among other things, (i) the individual has been diagnosed with COVID-19 or is experiencing symptoms of COVID-19 and is seeking a medical diagnosis, (ii) a member of the individual's household has been diagnosed with COVID-19, (iii) the individual is providing care for a family or household member who has been diagnosed with COVID-19, (iv) the individual must provide care for a child who is unable to attend school because of COVID-19, or (v) the individual's place of employment is closed due to COVID-19.
- Self-employed individuals who meet these criteria may also qualify for unemployment benefits.
- Individuals are not eligible for this benefit if they can telework for pay or are receiving paid sick leave or other paid leave benefits.

Special Rules Regarding Retirement Funds:

- **Required Minimum Distributions (RMDs):** RMDs are waived for 2020. The waiver includes RMDs that must be taken by April 1, 2020 due to the account owner turning 70 ½ in 2019. The recently passed SECURE Act raised the age that individuals must begin taking distributions from 70 ½ to 72, but this change does not apply to individuals who turned 70 ½ in 2019. Distributions from inherited IRAs are NOT included in the waiver and need to be taken in 2020.

- **Hardship Distributions from IRAs and 401(k)s:** People affected by the coronavirus can access up to \$100,000 of their retirement savings without being subject to the 10% penalty that normally applies to distributions taken before age 59 ½. These so-called hardship withdrawals are taxable to the account owner, but the tax can be paid over three years, rather than in the first year. Alternatively, the owner can repay the distribution to the retirement plan within three years and avoid having to pay tax. To qualify for a hardship withdrawal, the account owner or his or her spouse or dependent must have been diagnosed with the coronavirus or lost income due to a business closure, layoff, quarantine, reduction in hours or inability to work due to lack of childcare.
- **Loans from 401(k) Plans:** Participants in 401(k) or similar plans who have been diagnosed with the coronavirus or affected by economic losses related to the virus can take a loan from the plan over the next six months up to the lower of \$100,000 or 10% of the account balance. This is an increase of the existing \$50,000 loan limit. Individuals with existing 401(k) loans can delay repaying any loans due in 2020 for one year.

Changes to Charitable Contributions:

- The Act added an above-the-line deduction of up to \$300 for charitable contributions made in cash by individuals who do not itemize deductions, in addition to the standard deduction. This provision is applicable for the tax year 2020 and beyond. This excludes contributions to donor-advised funds, supporting organizations, and most private foundations.
- For individual taxpayers that itemize deductions, cash contributions made during 2020 will not be subject to AGI limitations. Prior to tax year 2020, an individual's charitable contributions made in cash were limited to 60% of their AGI.

Postponed Income Tax Filing and Payment Deadlines:

- The Act does not provide for additional time to file federal income tax returns or make federal income tax payments. However, the Internal Revenue Service ("IRS") has announced that any taxpayer with a federal income tax payment or federal income tax return due on April 15 will now have until July 15 to file and make such income tax payments. This applies both to the 2019 tax year and to estimated payments for 2020. The IRS confirmed that second-quarter estimated payments will be due (June 15) before first-quarter estimated payments (July 15) this year. Notably, this relief does not apply to any other federal taxes (including gift or estate taxes).
- It is expected by some tax planning professionals that state and local governments will follow the lead of the federal government, and some have, but there is still uncertainty in some jurisdictions.

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In addition to the items mentioned above, the law also provides for additional tax benefits and loan options to some businesses and non-profit organizations.

It is important to consult with your investment and tax advisors quickly to ensure that no planning opportunities are overlooked. Please call us with any questions and we will help you and your family navigate these changes.

**Investment Strategy Group
Mill Creek Capital Advisors
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