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What *Individuals and Employees* Should Know about the CARES Act: A Summary

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This article summarizes the benefits to individuals and employees under the Coronavirus Aid, Relief, and Economic Security Act (the "CARES Act") signed into law by President Trump on Friday, March 27, 2020.

The "CARES Act," the largest stimulus package in U.S. history, was enacted as an emergency response to the ongoing economic crisis caused by the global coronavirus pandemic. The CARES Act provides for billions of dollars in economic relief to small businesses and certain other groups hard hit by the pandemic, including individuals and employees.

In addition to providing for direct cash payments to individuals, the CARES Act, along with its predecessor (The Families First Coronavirus Response Act, or FFCRA), makes it easier for employer-sponsored retirement plan participants to access funds from their retirement accounts for "coronavirus-related distributions."

DIRECT CASH PAYMENTS

Much of the public discussion around the relief afforded for individual taxpayers under the CARES Act has centered around the "Economic Impact Payments," which are direct cash payments of $1,200 to

single individuals earning less than $75k or $2,400 to married couples earning less than 150k (with a out for those single individuals earning between $75k and $99k and married couples earning between $150k and $198k). Single individuals earning more than $99k or married couples earning more than $198k are ineligible for such relief. An additional $500 is paid for each qualifying child under the age of 17. Payment of these benefits commenced this week.

IRA/RETIREMENT PLANS

A lesser-discussed form of coronavirus-related relief for individual taxpayers are those related to IRA's and employer-sponsored retirement plans ("Plans").

Distributions: IRA owners and participants in a Plan are eligible to take coronavirus-related distributions from their retirement account if they or a spouse or dependent are diagnosed with the coronavirus, or if they suffer adverse financial consequences during the pandemic due to being quarantined, furloughed, laid off, or cannot otherwise work or have had their work hours reduced. For these distributions (up to a maximum of $100K), neither the mandatory 20% tax withholding nor the 10% early withdrawal penalty will apply. Proof of illness or economic hardship is not required to qualify for such distribution. Individuals simply provide a self-certification that they are entitled to the relief.

The distribution is considered taxable income and may be reported in one lump sum for the 2020 tax year or alternatively, it may be spread evenly over a three-year period beginning with the year of distribution (*i.e.*, the 2020, 2021, and 2022 tax years). Within three years after the date of distribution, recipients can recontribute (tax-free) some or all of the distribution to the plan from which the distribution was initially taken or to any other qualified retirement plan to which the distribution could have been rolled over. If a taxpayer reports the distribution as income and recontributes all or part of that distribution back to a qualified plan in a later year, the taxpayer can file an amended return to recover the income tax paid on that recontributed amount.

The right of a participant to take distributions from a Plan requires the Plan sponsor to amend the Plan. However, the Plan sponsor can implement these amendments immediately and amend the formal plan documents later.

Loans: Under the CARES Act, limitations on loans taken after March 27, 2020 and before September 23, 2020 have been relaxed. The maximum loan amount was raised from the lesser of $50k or 50% of the employee's vested balance in the Plan to the lesser of $100k or 100% of the employee's vested balance . For all loans outstanding on or after March 27, 2020, any loan repayments due between the enactment of the CARES Act and December 31, 2020, can be delayed for 1 year (Note: interest will continue to accrue on the unpaid balance), and this one-year suspension period will not count towards the maximum 5-year loan repayment obligation.

Similar to the Plan distribution relief provisions, the ability to take such loans first requires the amendment of the Plan.

Contributions: The CARES Act also allows sponsors of single-employer defined benefit pension plans to delay required contributions due during 2020 until January 1, 2021.

Required Minimum Distributions ("RMD"): The CARES Act waives the requirement for individuals to withdraw their RMD during 2020. For many, the RMD is needed to help deal with the financial hardships resulting the pandemic, but for individuals who are not in that situation, the RMD amount can remain invested in a tax deferred account.

CONCLUSION

The relief afforded to individuals and businesses under the CARES Act is complex, multi-faceted, and rapidly evolving. We will continue to actively monitor developments, and stand ready to help clients navigate these complicated legal developments and to assess their impacts.

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