

# What Individuals Need to Know About the CARES Act of 2020

Congress has acted to help offset the financial burdens and challenges that have hit people at all economic levels due to the Coronavirus health crisis. The Coronavirus Aid, Relief and Economic Security Act (CARES Act) of 2020 provides both broad based and targeted relief.

For individuals, relief comes in the form of direct cash payments, expanded unemployment protection, charitable contribution deductions and qualified plan/IRA early distribution penalty waivers.

The CARES Act provides approximately \$2 Trillion dollars in economic relief. As you'd expect, a relief act of this size (some 800+ pages of legislative language), contains dozens of provisions. The provisions reviewed here are some of the key elements that may help you in this time of economic disruption.

## Recovery Rebates

The most reported provision in the CARES Act is called Recovery Rebates. This provision will provide direct cash payments as follows:

- \$1,200 to single individuals (includes those who file as head of household)
- \$2,400 for married filing jointly
- \$500 for each dependent child age 17 or younger.

These payments are phased out for higher income earners. The rebate amount is reduced by \$5 for each \$100 that a taxpayer's income exceeds the phase-out threshold.

- Singles – phase out begins at \$75,000 of Adjusted Gross Income (AGI). Completely phased out by \$99,000 of AGI.
- Married filing jointly – phase out begins at \$150,000 of AGI. Completely phased out by \$198,000 of AGI.

- Head of Household – phase out begins at \$112,500 of AGI. Completely phased out by \$146,500.

Treasury will use the information from your 2019 tax return, or if not available, they will use your 2018 tax return. The benefit will be paid even to those who have no income, as well as those whose income comes entirely from non-taxable means-tested benefit programs, such as SSI benefits.

For taxpayers who have authorized direct deposits of a tax refund or other federal payment after December 31, 2017 Treasury will use this information to direct deposit the funds.

Treasury Secretary Mnuchin has stated that he believes the rebates will start being sent in about 3 weeks – which would place the first wave of rebates beginning sometime in late April. However, the legislation authorizes the payments to be made through December 31, 2020. You should be notified, within 15 days, of the payment being sent.

### Commentary:

If you have filed an income tax return in the last two years, it is likely that you won't have to take any steps to receive the rebate money. However, Treasury has been directed to provide the public with information on the details of the program. This campaign should be starting soon – so please stay aware of postings made by the Treasury Department on details of this program.

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## Charitable Deduction

- You may now deduct up to \$300 of charitable donations whether you itemize your deductions or use the standard deductions. This change is important since many taxpayers no longer itemize after the recent increase in the standard deduction.
- The 50% adjusted gross income limit on charitable deductions is suspended for 2020. By lifting this limit, if you itemize deductions you may be able to deduct all of your charitable contributions. Please note, if you are using the standard deduction – this change will have no impact on your taxes. However, you will still be eligible for the \$300 deduction noted above.
- The 10% Corporate limit is increased to 25%.

### Commentary:

The generosity of people donating to charities and non-profits to help in this emergency is being rewarded in the tax code. Being able to deduct \$300 without having to itemize may, even in a small way, make more generous donations possible.

## Unemployment Insurance Temporary Adjustments

This portion of the CARES Act has multiple prongs including increased payments and eligibility for workers who are not typically covered by unemployment insurance.

- Pandemic Unemployment Compensation provides for unemployment compensation to be increased by an additional \$600 per week for a maximum of 4 months. This is available to any individual who is receiving unemployment insurance or Pandemic Unemployment Assistance.
- The Pandemic Unemployment Assistance program is a new program that will run from January 27, 2020 through December 31, 2020. This program provides

unemployment coverage to workers who are self-employed, independent contractors, and others who don't normally qualify for unemployment insurance. To qualify, you must be unable to work as a direct result of the coronavirus public health emergency and not otherwise eligible for state unemployment programs. You will have to self-certify that you are unable to work because of the coronavirus emergency's impact on you, your family, your place of work, or other restrictions on your ability to work.

## Qualified Distributions – Waiver of 10% Early Withdrawal Penalty

If you take a withdrawal from your IRA or other retirement plan (401(k), 403(b), or 457(b)) prior to age 59 ½ you must pay a 10% penalty tax on the withdrawal. The CARES Act provides for a limited waiver of this 10% penalty under the following circumstances:

- Distribution is taken after 1/1/2020
- You (your spouse or dependent) are either (a) diagnosed with COVID – 19, or (b) you experience adverse financial consequences
- Withdraw no more than \$100,000

This withdrawal will be subject to ordinary income tax; however you may spread the income ratably over three years.

You may also choose to recontribute the funds and may do so within three years of the withdrawal without regard to regular contribution caps.

## Qualified Plan / IRA Provisions – Waiver of Required Minimum Distributions

If you have funds in an IRA or other retirement account (such as 401(k)) you are subject to a required minimum distribution beginning at age 72. The required minimum distribution has been suspended for 2020.

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Many of the provisions in the CARE Act are temporary measures designed to provide you with financial support and ease the economic hardships of the Coronavirus emergency. It is important to continue to stay informed so that you and your family may benefit from these provisions. This information is not intended as tax or legal advice. If you have questions or concerns related to how these provisions, or others, may affect you or your family, please seek guidance from your financial and tax professionals.