Tax Benefits for Individuals

Recovery Rebates for Individual Taxpayers

Provides for direct payments of up to $1,200 for single filers and $2,400 for married couples filing jointly plus $500 for each child under 17. Children who are, or can be, claimed as dependents by their parents aren't eligible individuals even if they have to file a return. Income limits apply, for single filers the phase-out range begins at adjusted gross income of $75,000 and completely phases out at $99,000. For married couples the phase-out range begins at $150,000 of adjusted gross income and completely phases out at $198,000. The recovery rebates will use 2019 tax returns, if they have been filed, to determine eligibility. If no 2019 return has been filed yet, the rebate will be based off the 2018 return. This means that taxpayers who receive a smaller rebate than they are eligible for based on 2020 income will receive the difference after filing a 2020 tax return, but overpayments of rebates due to a higher income in 2020 will not be clawed back.

Special Rules for Use of Retirement Funds

The 10 percent early withdrawal penalty on retirement account distributions is waived for taxpayers facing virus-related challenges. This includes individuals (1) diagnosed with COVID-19, (2) whose spouse or dependent is diagnosed with COVID-19, or (3) who experience adverse financial consequences as a result of being quarantined, being furloughed or laid off or having work hours reduced due to such virus or disease, being unable to work due to lack of child care due to such virus or disease, closing or reducing hours of a business owned or operated by the individual due to such virus or disease, or other factors as determined by the Secretary of the Treasury. The maximum amount of withdrawals that qualify for this is $100,000, and distributions must be taken during 2020. Withdrawn amounts are taxable over three years, but taxpayers can recontribute the withdrawn funds into their retirement accounts over three years without the amounts being considered towards their annual contribution limit. Eligible retirement accounts include individual retirement accounts (IRAs), 401Ks and other qualified trusts, certain deferred compensation plans, and qualified annuities.

Temporary waiver of Required Minimum Distributions

The bill also waives required minimum distribution rules for certain retirement plans for calendar year 2020.

Above the Line Deduction for Charitable Contributions

The CARES Act adds for 2020, in the case of taxpayers who do not itemize deductions, a $300 deduction for charitable contributions in determining adjusted gross income. Donations made to establish a new or contribute to an existing donor advised fund are not eligible for this deduction.

Modification of Limitations on Charitable Contributions During 2020

For individuals who itemize their deductions, the 60% limit on cash contributions will be suspended for 2020. Once again, contributions to donor advised funds are not considered qualified contributions for purposes of this change.

Exclusion for certain employer payments of student loans

The CARES Act adds to the types of educational payments that can be excluded from an employee's gross income eligible student loan repayments. Eligible student loan repayments are payments by the employer, either to the employee or a lender, of principal or interest on any qualified higher education loan. To prevent a double benefit for the employee, any interest paid by their employer is not subject to the student loan interest deduction. The payments are subject to the overall $5,250 per employee limit for all educational payments.

Disclaimer - The above information was developed using guidance issued through March 27, 2020. As additional guidance is issued, we will continue to provide updates accordingly.