

# Coronavirus Aid, Relief, and Economic Security (CARES) Act: What You Need to Know

*Planning Update | July 2020*

In March, the President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act into law, providing relief for families and businesses impacted by the coronavirus pandemic. A summary of the CARES Act provisions are included in this update, along with additional guidance released subsequent to the initial passage of the legislation.

It is important to be thoughtful about how you access funds available from new loan programs, whether to take a distribution from retirement accounts, and any other assistance available to your business or your family. Business owners will likely need help with calculating and allocating losses properly to ensure they receive the financial assistance available. For those considering major charitable gifting options, you'll want to determine how to give in a way that is most impactful for your desired charity and your current tax situation.

Given the unique set of circumstances, we recommend you consult with your advisors, wealth planner, and tax professionals to discuss how the CARES Act may impact you. Please reach out to your Abbot Downing relationship manager if you would like assistance with any of the programs discussed here.

## For Individuals:

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| <p><b>Stimulus Payments</b></p>                       | <p>In the initial legislation, payments of \$1,200 (single) and \$2,400 (joint filers) were sent to taxpayers within certain income limits. An additional \$500 payment was made available for each qualifying child. Payments were determined based on your most recently filed tax return or Social Security benefit statement, if no return was filed. The amount of the payment was reduced if income exceeded \$75,000 (single), \$112,500 (head of household), or \$150,000 (joint) and was fully phased out at \$99,000 (single), \$146,500 (head of household), and \$198,000 (joint).</p>  |
| <p><b>Retirement Plan Distributions and Loans</b></p> | <p>Minimum distribution requirements are waived for 2020 distributions from IRAs and certain defined contribution plans. The IRS clarified that distributions taken early in 2020 before the CARES Act may be recontributed by August 31, 2020 without consequence.</p> <p>Distributions from qualified retirement plans and IRAs received during 2020 of up to \$100,000 for COVID-19 related purposes are allowed without a 10% penalty, taxable evenly over three years beginning with the year of distribution. Tax on distributions may be avoided if the amount is fully recontributed within the three years. Related purposes include a COVID-19 diagnosis for you, your spouse, or dependent, or if you experience financial hardship as a result of impact on work or lack of child care.</p> <p>Qualified retirement plan loan provisions are broadened to allow loans up to \$100,000 (increased from \$50,000) and a longer repayment period. This applies to loans made within 180 days of enactment.</p> |

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| <b>Student Loans</b>            | Certain student loan payments and accrual of interest are suspended through September 30, 2020. Employers also may make student loan payments on behalf of employees (up to \$5,250) with those amounts excluded from employee income. Contact your loan provider for information about your specific student loan. |
| <b>Charitable Contributions</b> | A charitable deduction of up to \$300 is allowed for taxpayers who do not itemize their deductions. The adjusted gross income (AGI) limitation is waived for cash contributions made in 2020. Donor advised funds and private non-operating foundations are excluded.   |

**For Businesses:**

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| <b>Employment Taxes</b>         | <p>Employers and self-employed individuals may defer payment of the employer share of applicable payroll taxes beginning on the date of enactment through the remainder of 2020. The deferred payment may be paid over two years, half in 2021 and half in 2022. This deferral is available even if you received a Paycheck Protection Program (PPP) loan, discussed on the next page.</p> <p>Employers may be eligible for a payroll tax credit for 50% of qualified wages paid in 2020 where business operations are impacted by the COVID-19 crisis. The impact is based on suspension of operations or tests applicable to a reduction in gross receipts.</p> <p>Note: The credit does not apply if you take a Small Business Interruption Loan (as part of the Paycheck Protection Program; see next page).</p> |
| <b>Business Losses</b>          | <p>Net operating losses (NOLs) from 2018, 2019, or 2020 may be carried back five years. However, these rules do not apply to real estate investment trusts (REIT).</p> <p>The 80% income limitation on use of NOLs is waived for 2018, 2019, and 2020.</p> <p>The excess business loss limitation of \$250,000 (single) and \$500,000 (married filing jointly) is waived for 2018, 2019, and 2020 allowing business owners to deduct current year losses of any amount against other non-business income.</p>  |
| <b>Charitable Contributions</b> | The taxable income limitation for 2020 charitable contributions made by corporations is increased from 10% to 25%, if the contributions are made in cash to qualified charities. Donor advised funds or other supporting organizations are specifically excluded.  |

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| <p><b>SBA Loans:<br/>Paycheck<br/>Protection<br/>Program<br/>(PPP)</b></p> | <ul style="list-style-type: none"> <li>• Qualified businesses may be eligible for Small Business Administration (SBA) loans of up to \$10 million.</li> <li>• Loans may be eligible for forgiveness provided funds are used for qualifying expenses such as payroll costs, mortgage interest, leases, and utilities.</li> <li>• To qualify for full forgiveness, 60% of loan proceeds must be used for payroll costs. Partial loan forgiveness would still be allowed if less than 60% of proceeds were used for payroll costs.</li> <li>• Forgiveness only applies to expenditures made during the 24 weeks from the date the proceeds are received, but no later than December 31, 2020.</li> <li>• For any amount of the PPP loan which is determined to be unforgivable, loans issued prior to June 5 have a repayment term of two years (per the original law); those issued on or after June 5 have a repayment term of five years.</li> <li>• Refer to the <a href="#">Update on Coronavirus Lending Programs for Businesses</a> for more information on this program.</li> </ul> |
| <p><b>SBA Loans:<br/>Economic Injury<br/>Disaster Loans<br/>(EIDL)</b></p> | <ul style="list-style-type: none"> <li>• Special emergency loans of up to \$2 million for eligible nonprofits and small businesses, with \$10,000 paid within three days of application.</li> <li>• The loans should permit the recipients to cover payroll costs, operations, debt service, etc.</li> <li>• There are general eligibility requirements, nonprofit eligibility requirements, loan use requirements, and loan forgiveness provisions.</li> <li>• Any EIDL grant received may impact PPP loan forgiveness.</li> <li>• Refer to the <a href="#">Update on Coronavirus Lending Programs for Businesses</a> for more information on this program.</li> </ul>  |
| <p><b>Main Street<br/>Lending Program<br/>(MSLP)</b></p>                   | <ul style="list-style-type: none"> <li>• Created \$600 billion in financing for U.S. businesses with less than 15,000 employees or 2019 annual revenues less than \$5 billion.</li> <li>• The MSLP differs in many ways from the PPP program and has a different group of businesses that may be eligible for participation. Unlike the PPP, the loans are not subject to forgiveness.</li> <li>• Refer to the <a href="#">Update on Coronavirus Lending Programs for Businesses</a> for more information on this program.</li> </ul>  |
| <p><b>Other Business<br/>Provisions</b></p>                                | <ul style="list-style-type: none"> <li>• Accelerated use of corporate alternative minimum tax (AMT) credits remaining from prior years.</li> <li>• Increase in the interest expense deduction limitation from 30% to 50% of taxable income in tax years beginning in 2019 and 2020, with the option of using the 2019 adjusted taxable income to compute the 2020 limitation.</li> <li>• Reclassification of depreciation schedules for certain restaurant and qualified retail business property to be eligible for bonus depreciation.</li> </ul>  |

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## Tax Planning Considerations:

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| <b>Charitable Contributions</b> | <p><b>Qualified Charitable Contributions:</b> If you regularly take your required minimum distribution and contribute it to charity, you are still permitted to do so this year. This may be advantageous to reduce future required minimum distributions.</p> <p><b>Roth IRA Conversion with Increased Charitable Deductions:</b> For individuals considering leaving their traditional IRA to charity and with the means to fund that gift now, consider making a charitable contribution this year equal to your Roth IRA conversion amount. This may eliminate any tax due on the conversion. Though deductibility may be more limited, consider utilizing a donor advised fund if you are uncertain where to direct your charitable giving immediately.</p>   |
| <b>Retirement Accounts</b>      | <p><b>Roth IRA Conversion:</b> Consider converting traditional retirement accounts (pre-tax) to Roth accounts. You are required to pay income taxes on the converted balance. However, with potentially depressed account values this may be a smaller tax bill than in previous years. If you experience a reduction in taxable income this year, this may further reduce the tax cost of the Roth IRA conversion. By paying the tax now, the funds will grow tax-free in the Roth IRA.</p>   |
| <b>Business Owners</b>          | <p><b>Reassess Your Refund:</b> With changes to deductibility of NOLs and the business excess loss rules, it's time to review your 2018 and 2019 tax returns to determine if these limitations applied. If so, you may be entitled to an immediate refund.</p> <p><b>Estimated Taxes and Planning for Losses:</b> Estimated taxes are often paid based on prior year income. With many business owners anticipating large losses in 2020, consider paying estimated taxes based on projected 2020 income. Also, with the ability to use 2020 losses to offset up to five years of prior income, consider how a refund (potentially large refund) will impact your need for cash after 2020.</p>  |
| <b>Wealth Transfer</b>          | <p><b>Future Goals and Restructuring:</b> COVID-19 came as a shock to most. Some individuals and families may find their original wealth planning is no longer the most efficient way to accomplish their goals or reflect their values. For instance, the corporate or partnership structure may need to change to protect themselves, transition wealth, and minimize taxes. Now is the time to reassess future goals for your personal investments, retirement assets, and business or real estate portfolio.</p> <p><b>Wealth Transfer Planning Trifecta:</b> Economic uncertainty leaves us in an environment with lower asset valuations and low interest rates. These two things joined with the highest estate tax exemptions ever (\$11.58 million per person in 2020) make the perfect trifecta for effective wealth transfer planning. Consult with your estate and tax planning professionals to explore strategies that may accomplish your goals and objectives.</p> |

Many of these provisions<sup>1</sup> contain detailed limitations and technical requirements that must be considered in order to determine if they apply to your situation. Consult with your team of trusted advisors to better understand how this legislation will truly impact your family, business, and overall financial picture.

<sup>1</sup> U.S. Department of Treasury.

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