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In response to the global COVID-19 pandemic, several emergency legislative measures have been enacted to help alleviate the personal and financial distress facing individuals, businesses and non-profits across the United States, including:

Notice 2020-18: Provides automatic extension of time to file tax returns and make payments

Families First Coronavirus Relief Act (FFCRA): Effective April 1, 2020; provides paid leave benefits to workers affected by the COVID-19 crisis and creates employer tax credits

Coronavirus Aid, Relief, and Economic Security Act (CARES Act): Provides a massive $2 trillion stimulus package to expand unemployment, support American families and ease economic distress

These provisions are broad in scope and impact. Highlighted below are the key takeaways that affect individual taxpayers.

MOST SIGNIFICANT COVID-19 LEGISLATIVE RELIEF PROVISIONS FOR INDIVIDUALS

- Automatic extension of April 15 deadline to July 15 for filing tax returns and making tax payments
- IRA, HSA and MSA contribution deadline extended until July 15
- "Economic impact" stimulus payments to individuals - $1,200 per individual ($2,400 for couples filing jointly), plus $500 per child, subject to income phase-outs
- Waiver of 2020 required minimum distributions (RMDs) from IRAs and qualified plans
- Special relief for "coronavirus-related distributions" from qualified plans and IRAs, up to $100,000
  - o Waiver of 10% early withdrawal penalty for taxpayers under age 59 ½
  - o Taxable income from distribution can be spread over 3 tax years
  - o Funds can be repaid back to IRA or qualified plan within 3 years
  - o Employer-sponsored retirement plan rules have been relaxed for plan loans
- New $300 "above-the-line" charitable deduction for cash donations made during 2020
- Waiver of 60% AGI limit for cash charitable contributions made during 2020
- Expanded unemployment benefits for taxpayers affected by COVID-19, including self-employed workers, "gig" workers, part-time workers and those with limited work history
- Deferral of Federal student loan payments through September 30, 2020

WHAT DO THESE PROVISIONS MEAN FOR INDIVIDUALS?

These critical tax relief provisions made available to individuals due to the COVID-19 crisis are discussed in greater detail below, along with relevant and timely tax planning strategies.

Automatic extension of the April 15 deadline. The April 15, 2020 deadline for filing tax returns and making tax payments for a variety of taxpayers has been automatically extended until July 15, 2020.

- No formal extension request or form is required; the relief is applied automatically by the IRS.
    - If you cannot file by July 15, a formal extension must be requested.
    - All eligible taxpayers are provided relief, meaning that you do not actually have to be sick, quarantined or impacted by COVID-19 to qualify.
- Individuals, trusts & estates, corporations, non-profits, and most other taxpayers with April 15 deadlines are eligible for the automatic extension. Gift taxes and Generation Skipping Transfer (GST) taxes have also been extended.
- There is no limit on the amount of tax that can be deferred until July 15. However, any tax liability not paid by July 15 will start to accrue interest and penalties, beginning on July 16, 2020.
- If you have already filed your 2019 tax return but have not yet paid the balance due, you may wait until July 15 to make the payment.
- Q1 and Q2 2020 estimated tax payments have both been extended until July 15.
- Most states have aligned with the Federal automatic extension to July 15 for filing and making tax payments, including Missouri, Kansas and Illinois. Please confirm with the states in which you file whether they have allowed for COVID-19 relief.
- The IRS has also announced that digital signatures, such as those provided through services like DocuSign, will be temporarily accepted on tax documents due to the coronavirus pandemic. The IRS will also accept images of signatures that are scanned or photographed.

IRA, HSA and Archer MSA contribution deadline also extended until July 15. In general, contributions can be made to IRAs for a particular year up until the filing deadline of the tax return for that year. Because the tax filing due date has been extended until July 15, you may also make contributions to your IRA for the 2019 tax year until July 15, 2020. Similarly, contributions can be made to Health Savings Accounts (HSAs) and Archer Medical Savings Accounts (MSAs) until July 15, 2020 for the 2019 tax year.

> **Planning Pointer »** At this point, the IRS has not extended the deadline for information reporting, which includes the May 31, 2020 deadline for financial institutions to issue 2019 Form 5498 for

reporting IRA contributions and rollovers. It is unclear if the IRS will alter the deadline for providing Form 5498 to IRA owners. Consequently, if you make a contribution to your IRA after December 31, 2019 (and before July 15, 2020), you should provide documentation to your tax advisor to ensure the deduction is properly taken on your 2019 tax return.

Planning Pointer » If your tax situation allows, consider contributing the maximum amounts to your IRA, HSA and/or MSA accounts to take advantage of the "above-the-line" tax deductions.

"Economic impact" stimulus payments to individuals. Perhaps the most publicized and anticipated relief provision included in the CARES Act is the cash stimulus payment to individuals who fall below specific income thresholds. This provision, similar to the stimulus payments provided in the 2001 and 2008 recessions, provides immediate funding to Americans to help alleviate short-term cash flow needs. It is estimated that over 90% of taxpayers will receive some amount of stimulus money.

- Stimulus payments are $1,200 per individual ($2,400 for couples filing jointly), plus $500 per child.
    - For children, the same rules apply as the Child Tax Credit. Children must be under 17 years old to qualify for the $500 payment.
- Cash payments are expected to be made over the next several weeks, in early to mid-April. Payments will be available from the IRS until December 31, 2020.
- Direct deposit will be used to deliver the funds for many Americans, based on the bank account information provided in your most recently filed tax return, or as provided by the Social Security Administration for retirees. Otherwise, the IRS will mail a check to your last known address.
- Income phase-out amounts start at: $75,000 for single filers, $150,000 for married couples, and $112,500 for head of household. For every $100 you earn above the threshold, your cash payment is reduced by $5.
- Income phase-outs are initially determined based on the Adjusted Gross Income (AGI) reported on your 2018 or 2019 tax return, whichever was most recently filed. This is the tricky part: the stimulus checks will ultimately be based on your 2020 income and will be "trued up" on your 2020 tax return, filed in 2021.
    - The stimulus payments being made are considered an "advance payment" of a 2020 tax credit. Therefore, the stimulus payments do not constitute taxable income!

    Planning Pointer » If you have not yet filed your 2019 tax return, you should consider whether you should quickly file your 2019 tax return, or if you should wait. If your 2018 AGI was under the phase-out threshold and your 2019 would be over, you should consider waiting to file your 2019 tax return so that you receive a stimulus payment. Alternatively, if your 2018 income was over the threshold and your 2019 would be under, you should consider quickly filing your tax return in order to receive a payment.

> **Planning Pointer »** If you receive a stimulus payment but your 2020 AGI ends up being above the phase-out threshold, the IRS will not require you to repay the credit as there was no "clawback" provision included in the legislation! Additionally, if you do not receive a stimulus payment but are owed one based on 2020 AGI, you will receive the credit on your 2020 tax return.

- The IRS will provide more information at www.IRS.gov/coronavirus as it becomes available.

Waiver of 2020 required minimum distributions (RMDs) from IRAs and qualified plans. Required minimum distributions have been waived for tax year 2020 for traditional IRAs, as well as 401(k), 403(b) and 457(b) plans, SEP IRAs, SIMPLE IRAs and inherited IRAs. This particular provision is a welcome relief for IRA owners who must take RMDs from their currently deflated accounts, based on an RMD calculation using inflated December 31, 2019 values.

- The waiver applies to all 2020 RMD amounts, as well as RMDs required to be taken in 2020 – including 2019 RMDs for individuals who turned 70 ½ in 2019 and had waited until the April 1, 2020 deadline to take their first RMD. These IRA owners are able to skip two RMDs instead of just one!
- Qualified Charitable Distributions (QCDs) are still allowed for 2020 if an account owner would like to satisfy their charitable giving with IRA money in a tax-free manner. The $100,000 limit per year, per taxpayer still applies for funds donated directly to charity from an IRA.
- For IRA owners who have already taken their 2020 RMD and wish to return the funds, there is potential relief available. If the RMD distribution was taken less than 60 days ago, the RMD funds can be returned to the account as a "60-day rollover". There is also potential relief under the "coronavirus-related distribution" rules discussed below; however, IRS guidance will likely be necessary and forthcoming.
- You may still take funds from your IRA or qualified plan if you desire, but it is not required in 2020.

> **Planning Pointer »** While you are not required to take a 2020 RMD, you may still wish to take a taxable distribution intentionally if you need the funds for living expenses, or if you would like to take advantage of tax planning opportunities.
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> If you find yourself in a lower tax bracket for 2020, you should consider taking advantage of the lower bracket by triggering a taxable distribution. It is also a good time, while market values are depressed, to consider a Roth IRA conversion. There are several tax benefits associated with Roth conversions that the Central Trust team would be happy to discuss with you.

Special relief for "coronavirus-related distributions" from qualified plans and IRAs. Distributions up to $100,000 can be taken from IRAs and/or qualified plans during 2020, so long as the individual has been impacted by the coronavirus in one of the following ways:

- Has been diagnosed with COVID-19;
- Has a spouse or dependent who has been diagnosed;
- Is unable to work because of school and daycare closures;
- Has experienced some adverse financial impact due to being quarantined, laid off, furloughed, or having work hours reduced;
- Has owned a business that has experienced reduced hours or closure because of the pandemic; or
- Any other reason that the IRS deems as having a negative impact.

The qualifications are broad and vague, which fortunately (and perhaps intentionally) allows more taxpayers to qualify. Several tax benefits are included in this provision:

- 10% early withdrawal penalty on IRA and qualified plan distributions has been waived for taxpayers who are under the age of 59 ½.
- The taxable income associated with the "coronavirus-related distributions" (up to $100,000) is defaulted to be spread over 3 tax years in 2020, 2021 and 2022; however, a taxpayer can elect to include all of the income on his or her 2020 tax return.
- Funds can be repaid to the IRA or qualified plan within 3 years, beginning the day after the distribution is made. The repayment can be made from a single rollover or through multiple partial rollovers during the 3-year period.
- Employer-sponsored retirement plan rules have been relaxed to allow for larger and more flexible loans taken by particiants against their vested plan balance. Payments may be delayed for up to one year.

Planning Pointer » Consideration should be given to your 2020 tax bracket versus possible future tax brackets in 2021 and 2022. Electing to tax the entire "coronavirus-related distribution" in 2020 may make more sense from a tax perspective if your overall income (and thus, your tax bracket) will be lower in 2020 than it would be in 2021 or 2022.

Planning Pointer » If repayment is made to roll the "coronavirus-related distribuation" funds back into the IRA or qualified plan, an amended tax return should be filed to claim a refund of the tax paid.

Charitable Giving Relief. To encourage charitable giving during these uncertain times, the CARES Act has provided several charitable-related provisions.

- New $300 "above-the-line" charitable deduction for cash donations made during 2020. This provision is available to taxpayers who do not itemize deductions.
    - The donations must be made in cash to a public charity during 2020 and cannot be made to a donor-advised fund or a "supporting organization".
    - Fun Fact: The CARES Act states that this new deduction begins in 2020 but fails to mention a sunset or expiration date. Let's hope this deduction becomes permanent!
- The 60% AGI limit for deducting cash charitable contributions during 2020 has been temporarily suspended. Therefore a taxpayer can give up to 100% of his or her adjusted gross income, with any excess carrying forward for up to 5 years. Similar to the new $300 charitable deduction, the donations must be made in cash and cannot be made to a donor-advised fund or supporting organization.

    Planning Pointer » Due to the suspension of the 60% AGI limit on cash donations, it is an opportune time to consider making large charitable gifts of cash out of IRAs for charitably-inclined taxpayers. Generally, the 60% AGI limit creates a tax barrier to donating cash from IRAs (for those not using the QCD rules) because it does not provide a complete offset deduction to the taxable income created by the IRA distribution. However, under the temporary suspension of the 60% AGI limit, unlimited amounts of IRA money can be cashed out, donated to charity, and taken as an itemized deduction to fully offset taxable income. Any excess unused charitable deduction would be carried forward for up to 5 years.

    Planning Pointer » Donors with securities that have declined in market value (below cost basis) may wish to harvest capital losses by selling off the securities and then donating the cash, rather than donating the security to charity "in kind", which is a popular tax planning strategy for donating appreciated assets.

Expanded unemployment benefits for taxpayers affected by COVID-19. The CARES Act dramatically expanded unemployment benefits.

- Self-employed workers, "gig" workers, part-time workers and those with limited work history who are generally ineligible for "regular" unemployment benefits can now receive up to 39 weeks of benefits.
- The "first week" waiting period has been suspended, and the Federal government will reimburse states for providing unemployment compensation immediately, without the one-week waiting period.
- An additional $600 of unemployment compensation will be added on top of "regular" unemployment benefits provided by states, for up to four months. This provision alone will make a substantial impact in the lives of many Americans who are struggling during these unprecedented times.
- Unemployment benefits have been extended by 13 weeks.
- Paid sick and FMLA leave provisions were also included in the Families First Coronavirus Relief Act

(FFCRA), which requires employers to pay employees who are unable to work due to the coronavirus pandemic. The FFCRA provides a tax credit to employers to offset the cost of providing paid leave.

Relief for student loan payments. The CARES Act has suspended required payments for Federal student loans through September 30, 2020. Interest will not accrue on the debt during this time. Voluntary payments may still be made, effectively paying down debt with 0% interest during the deferral period.

Additionally, through the end of 2020, employers may pay up to $5,250 for student loan repayments on an employee's behalf and can exclude the payments from the employee's income. This provision must be coordinated with the $5,250 tax-free education assistance that employers can provide employees for current educational programs. This is a nice perk for employers who wish to provide an additional tax-free benefit to their employees with student loan debt.

THE BOTTOM LINE

While these are very difficult and uncertain times, many unique planning opportunities exist in 2020 due to the recent legislative changes. Now is a great time to discuss tax (income and estate) and financial planning strategies with your Central Trust Company wealth management team and your tax professional(s). Consider rebalancing your portfolio to better align with your financial goals or to take advantage of the market downturn. Refinance your mortgage to take advantage of low interest rates and enjoy the monthly payment savings. Consider a Roth IRA conversion to take advantage of tax-free growth. Revisit your estate and gift plans to ensure your wishes will be fulfilled.

We hope that you and your families stay well, and please know that Central Trust Company is here to support and guide you at all times.