Morgan Stanley

Coronavirus Aid, Relief, and Economic Security Act (CARES Act)

Key Provisions for Individuals and Businesses

The $2 trillion stimulus bill signed into law on March 27th, 2020 aims to address economic and industry impacts of the COVID-19 pandemic from a variety of perspectives, including tax relief, grants and loan assistance, healthcare and education provisions, and more. Below are some of the key provisions to the Coronavirus Aid, Relief, and Economic Security (CARES) Act for both individuals and businesses[1]:

[1]Note that the below does not represent a comprehensive, exhaustive list of all CARES Act provisions. Additionally, some provisions below may have eligibility criteria and conditions not described here in full. Click here for the full text of the bill. Please consult your Financial Advisor, and Tax and Legal Advisors, to understand the potential CARES Act impact to your particular financial and tax situation, respectively.

Individuals: Key CARES Act Provisions

- $1,200 **advance refundable tax credit** for individuals ($2,400 if filing jointly), plus $500 per qualifying child, with phaseouts beginning at $75,000 in AGI for individuals ($150,000 if filing jointly). Rebates generally will be paid out as advance refunds (in the form of checks or through a direct deposit) on the basis of taxpayers' 2019 returns (or tax year 2018, if a 2019 return has not yet been filed)
- **Relief in the form of retirement account provisions:**
  - Provides the following tax relief for qualifying coronavirus-related distributions (defined later):
    - waives the 10% penalty tax on early distributions made from qualified retirement plans and individual retirement accounts (IRAs),
    - allows individuals to include the taxable portion of the distribution in his or her taxable income over a 3 year period,
    - allows such distributions to be recontributed to a qualified retirement plan or IRA as rollover contributions within 3 years after the date of distribution,
    - permits in-service distributions from qualified retirement plans, even if such amounts are not otherwise eligible for distribution under the federal tax rules, and
    - exempts the distribution from mandatory 20% federal income withholding applicable to eligible rollover distributions from qualified retirement plans (and exempts such distributions from the 402(f) notice requirement and direct rollover requirement)

Qualifying coronavirus-related distributions are distributions of up to $100,000 in the aggregate that are made from qualified retirement plans and IRAs on or after January 1 2020, and before December 31, 2020, to an individual (1) who is diagnosed with the virus SARS-CoV-2 or with the coronavirus disease 2019 (COVID-19), (2) whose spouse or qualifying dependent is diagnosed with such virus or disease, or (3) who as a result such virus or disease experiences adverse financial consequences due to quarantine, furlough, layoff,

reduced work hours, inability to work as a result of childcare issues, business closure or reduced business hours of a business owned or operated by the individual (and any other factor as determined by Treasury)

- Waives Required Minimum Distributions (RMDs) for IRAs and defined contribution plans (including 401(k), 403(b), and governmental 457(b) plans) for calendar year 2020, including RMDs for 2019 that must be taken on or before April 1, 2020, by individuals who turned age 70 ½ in 2019, but only to the extent such RMD was not distributed before January 1, 2020
- Provides the following coronavirus-related relief for loans from qualified retirement plans:
  - Temporarily increases plan loan dollar limits for qualifying individuals to the lesser of (1) $100,000 or (2) greater of $10,000 or 100% of the present value of the participant's vested benefit. Only applies to loans taken within 180 days of enactment, and
  - Provides qualifying individuals a one-year delay for plan loan repayments that are due in 2020 (but due on or after the date of enactment).

  A qualifying individual for purposes of this qualified retirement plan loan relief is an individual who would qualify for a coronavirus-related distribution (as described above)

- **Expansion of unemployment benefits:**
  - Creates a temporary Pandemic Unemployment Assistance program through December 31, 2020 to provide payments to individuals not traditionally eligible for unemployment benefits (self-employed, including gig workers and independent contractors, etc.). The Pandemic Unemployment Assistance program will be state administered but federal funded
  - Provides an additional 13 weeks of unemployment benefits through December 31st, 2020 for those for whom state unemployment benefits may have ended, including recipients of the Pandemic Unemployment Assistance program
  - Provides an additional $600 per week for up to four months to each recipient of Unemployment Insurance or Pandemic Unemployment Assistance
  - Provides funding to support existing state "short-time compensation" programs (where employers reduce employee hours instead of resorting to layoffs). Employees with reduced hours would receive a pro-rata unemployment benefit and funding through this provision would reimburse 100% of the costs incurred by the state through December 31, 2020. Also provides funding for states that enter into agreements with the Department of Labor to enact a "short-time compensation" plan, and would reimburse 50% of the costs that a state incurs under the plan through December 31, 2020
- **Charitable deduction increases:**
  - Up to $300 in above-the-line deductions for charitable cash contributions, for taxpayers who take the standard deduction. Deduction does not apply to contributions to a supporting organization or a Donor Advised Fund
  - Limitation on deduction amount for charitable cash contributions (60% of AGI for individuals who itemize) has been suspended for 2020. Suspension does not apply to contributions to a supporting organization or a Donor Advised Fund
- **Temporarily suspends payments due on federal student loans,** and enables employers to contribute up to $5,250 to an employee's student loan payments per year, excluded from the employee's income
- **Provides certain relief for eligible consumers related to their mortgage loans** insured or otherwise guaranteed by VA, FHA, USDA, Fannie Mae and Freddie Mac
- **Provides additional funding for, and expands provisions around, COVID-19 diagnostic testing and care**

Businesses: Key CARES Act Provisions

- **Expands eligibility criteria for Small Business Administration 7(a) loans** and **provides under certain conditions loans of up to $10M, as well as grants,** available via the US Small Business Administration
- **Employee retention tax credit** for eligible employers: a refundable Social Security tax credit equal to 50% of

qualified employee wages (up to $10,000 of wages for each employee).

- **Deferral of the Social Security portion of employer payroll taxes owed** for the period between March 27, 2020 and December 31, 2020: 50% of the deferred amount to be paid by December 31, 2021 and the remainder to be paid by December 31, 2022
- **Modification of Net Operating Loss (NOL) rules:**
  - Temporary allowance to use NOLs to offset 100% of taxable income (as opposed to the 80% limitation established as part of the Tax Cuts and Jobs Act) for taxable years prior to 2021
  - NOLs generated in tax years 2018, 2019, and 2020 can be carried back 5 years (may require the amendment of prior year tax returns). Pass-through entities and sole proprietorships may be able to take advantage of this provision
- **Temporary increase in business interest expense limitation** to 50% of adjustable taxable income for tax years 2019 and 2020. Taxpayers can use their 2019 adjusted taxable income for the 2020 calculation
- **Temporary suspension of the limitation on excess business losses** established as part of the Tax Cuts and Jobs Act for tax years 2018, 2019, and 2020, for pass-through entities and sole proprietorships
- **Accelerated ability to obtain AMT Credit Carryforward Refunds** made available to corporations as part of the Tax Cuts and Jobs Act
- **Charitable deduction increased** for C corporations from 10% to 25% of taxable income
- **Qualified improvement property**, e.g. real estate and leasehold improvement, **now included as eligible for bonus depreciation of 100%** for property placed in service in tax years after 2017. This is a technical correction to the bonus depreciation provision of the Tax Cuts and Jobs Act
- **Defined Benefit funding relief** for single-employer defined benefit plans: the due date for employers to satisfy their plan funding obligations that would otherwise be due during 2020 (including the due date(s) for any quarterly contributions, if applicable) is delayed until January 1, 2021, with interest for payments made after the original due date
- Establishes certain limits on provisions from the Families First Coronavirus Response Act which require employers to provide paid leave

ADDITIONAL RESOURCES

- **Full CARES Act bill:** Congress.gov.
- **Coronavirus Emergency Loans Guide and Checklist for Small Businesses and Nonprofits:** USchamber.com *(U.S. Chamber of Commerce)*

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