DICKMEYERBOYCE
FINANCIAL MANAGEMENT, INC.

April 28, 2020

Re: The Coronavirus Aid, Relief, and Economic Security (CARES) ACT - 3/27/2020 and the Setting Every Community Up for Retirement Enhancement (SECURE) ACT – 12/20/2019

Dear Client.

Two recently passed pieces of legislation will have important implications for our clients for years to come. The SECURE ACT contains provisions designed to increase access to workplace retirement plans and expand retirement savings. The CARES Act is a federal relief package designed to combat the harmful economic effects of the COVID -19 pandemic. While the new laws are exhaustive, we have summarized some of the key provisions of each ACT below along with some planning opportunities that may be of benefit to you. We hope you will find this information useful.

The CARES ACT:

Direct Payments to Citizens

The CARES Act includes a provision to send most Americans direct payments of $1,200 if single or $2,400 for joint filers, plus $500 for each child under 17. The amount of the payments will be reduced for those with higher incomes. For individuals filing taxes as single, the reduced amount begins at an adjusted gross income (AGI) of $75,000 per year and is completely phased out at $99,000. For joint filers, the reduced amount begins at $150,000 and payment is eliminated at $198,000. Your AGI will be determined by your 2019 tax filing (or 2018, if 2019 is unavailable). Final eligibility will be determined when you file your 2020 federal tax return.

Sick Pay and Leave and Unemployment Insurance

Paid sick and family leave is available for eligible employees affected by Covid-19. In addition, Unemployment Insurance has been expanded to include a federal component which provides for an additional $600 weekly payment amount for up to 13 weeks and includes compensation for self-employed, independent contractors and other workers who are ordinarily ineligible for unemployment benefits.

Business Benefits:

The Payroll Protection Program (PPP) provides forgivable loans to businesses to assist with payroll, loan payments, rent and utilities. In addition, businesses including sole proprietors may apply for disaster loans enabling them to receive working capital to overcome the temporary loss of revenue. Entities that apply for a disaster loan can get an immediate advance of up to $10,000 to maintain payroll, and the advanced $10,000 does not have to be repaid even if the full loan application is later denied.

Both programs are administered through the Small Business Association (SBA) in conjunction with local banks.

An employer's portion of Social Security payroll tax payable in 2020 may be deferred until January 1, 2021, with the first half of the deferred 2020 payment due at the end of 2021 and the second half due at the end of 2022.
Employers may also be eligible for up to one year of credit against the employer's 6.2% share of Social Security tax for a business that is fully or partially suspended due to government orders, or where revenue in a quarter in 2020 is less than 50% of the revenue in the same quarter last year.

Health Care:

The CARES ACT expands coverage of telehealth services under Medicare. It also allows high-deductible health plans with health savings accounts (HSAs) to cover telehealth services even if patients have not met their annual deductible.

In addition, specifically for HSAs, MSAs and FSAs eligible medical expenses will now include over the counter (OTC) medications and menstrual care products.

Federal and State Tax Filing Deadlines:

The deadline for filing and the payment of 2019 federal income taxes and estimated taxes has been moved from **April 15 to July 15, 2020**, by the Internal Revenue Service (IRS). For our clients living in Indiana the Indiana Department of Revenue also changed their filing deadlines to match the IRS. As a result, Indiana state taxes due as well as 1st quarter estimates will be due on July 15th, 2020. **Please note that 2nd quarter estimates for the state of Indiana are still due 6/15/2020**.

Indiana County Property Taxes (Real Estate) are still due on May 11th. However, counties can waive penalties on payments made after May 11th for a 60-day period.

The CARES Act allows for a $300 above-the-line deduction (previously below-the-line) for cash charitable contributions made to 501(c)(3) organizations. This applies only to taxpayers who take the standard deduction. The ACT also relaxes the limit on charitable contributions for itemizers by increasing the amount that can be deducted from 60% of adjusted gross income to 100% of gross income.

The deadline for making 2019 IRA and HSA contributions has also been moved to July 15, 2020.

Retirement Plans (IRAs, 401(k)s, 403(b)s:

SECURE ACT:

- Allows for Traditional IRA contributions to be made at ANY AGE. Previously you had to be under age 70 ½ and have earned income to make a contribution to an IRA. You still must have earned income in order to contribute. **Planning Opportunity**: If you are over age 70 ½, still working and have earned income you can contribute to an IRA and a spousal IRA if married. Regular deductibility rules apply.

- The starting age for Required Minimum Distributions (RMD)s has been pushed back to age 72 from age 70 ½. You must have turned 70 ½ in 2020 or later to benefit from the delayed start age. Individuals who turned 70 ½ in 2019 AND did not defer their first distribution to April of 2020 must adhere to the old rules. **Planning Opportunity:** The age 72 start date gives those who do not need the income two additional years of tax deferral and two additional years for tax planning, such as for Roth Conversions.

- Inherited (Stretch) IRA Rules for non-designated beneficiaries are drastically curtailed. Previously, if the account owner had started distributions, then upon their passing the beneficiary could inherit this IRA and take minimum required distributions over their longer life expectancy. This is no longer allowed. Now unless you are considered an eligible designated beneficiary, distributions from the IRA must be complete by the end of the 10th year. (no RMDs required in years 1-9) **This change will accelerate the distributions and the taxes due for non-designated beneficiaries.** Some plan exceptions apply. Designated beneficiaries are exempt from the 10-year rule. Examples of designated beneficiaries include surviving spouses, disabled persons, chronically ill persons, a beneficiary not more than 10 years younger than the decedent and the decedent's minor child.

CARES ACT:

- Temporary waiver of Required Minimum Distributions - **Required minimum distributions (RMDs) are suspended for 2020** for account owners and inherited IRA beneficiaries. In addition individuals who delayed first-time distributions in 2019 may skip RMDs for 2019 and 2020. This means that individuals who turned 70½ in 2019 and were waiting until April 15, 2020, to take their first RMDs now have until the end of 2021 to start taking distributions. **Planning Opportunity:** An RMD still makes sense for someone in need of income or who expects to be in a lower tax bracket this year. That said, if you need the income but can curtail or reduce the amount of your annual RMD this can prove effective by allowing investment assets to recover and by reducing overall taxable income.

- In addition, individuals who have taken an RMD in the past 60 days may have the option to undo it. If it's returned to a retirement account within 60 days, the distribution will be treated as a 60-day rollover. Keep in mind, however, that only one rollover is allowed per 12 month period. Beneficiary/inherited IRA RMDs are not eligible for the rollover back into an IRA. **Planning Opportunity:** If you recently received an RMD and do not need the funds consider rolling them back into an IRA or company retirement plan. This will serve to reduce taxable income and resume the tax deferred growth of the investment.

- The CARES Act also seeks to make retirement plan funds available to retirement savers who need to tap tax deferred savings during this time of need for emergency spending. The CARES ACT permits in service **coronavirus-related hardship distributions or (CRD**) of up to

$100,000 from a participant's vested account balance. The 10% early withdrawal penalty will also be waived.

To qualify eligible participants must have been diagnosed with Covid-19 or have a spouse or dependent diagnosed with Covid-19. Or, they must be experiencing adverse financial consequences as a result of being quarantined, furloughed, laid off, or experiencing reduced work hours or lacking child care because of the coronavirus. Business owners who have to close or reduce business hours would also qualify. **Unless such a special distribution is urgently needed, however, it's generally recommended that clients continue to take advantage of tax-deferred growth and not take early distributions from their retirement accounts**.

- Other benefits of the CRD:
  - The federal income tax due on the hardship distribution may be spread evenly over 3 years. Or, the affected individual has the option to repay the distribution to an eligible retirement plan within a 3-year period. This would eliminate any taxes due.

Student Loans and 529 Plans

SECURE ACT:

The SECURE ACT allows for tax-free distributions of up to $10,000 from a college 529 plan to repay student loans and to pay for certain apprenticeship programs.

CARES ACT:

Interest on federal student loan debt has been waived for 6 months retroactive to March 13, 2020 and no payments are required on Federal student loans for 6 months as well. Equally important for borrowers enrolled in loan forgiveness programs, the missed months of payments will be recorded as if the borrower had made a payment for the purposes of loan forgiveness programs. Bottom line:

- No payments are required until 9/30/2020.
- No interest will accrue in the interim

We are thinking about you during these unprecedented times and wishing you well and good health. We realize this is a lot of information with lots of details. As always, please do not hesitate to reach out if we can be of assistance or if we can answer any questions you may have. Also, please contact your accountant or tax preparer with any specific tax related questions.

Sincerely,

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