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PCS Update

On March 27, 2020, Congress passed, and the President signed into law the Coronavirus Aid, Relief, and Economic Security Act ("CARES Act"), a $2 Trillion stimulus bill - the largest stimulus bill in United States history - designed to alleviate the impact of the COVID-19 pandemic on the United States economy.

In addition to the highly publicized provisions of the CARES Act that provide rebates for eligible taxpayers (individual/family stimulus checks) and relief measures for small businesses, the legislation includes provisions that expand charitable contribution deductions for individual taxpayers and modify portions of the federal tax code governing retirement plans and required minimum distributions ("RMD's").

Charitable Contributions

Individual taxpayers who do not elect to itemize deductions may now deduct up to $300 of qualified cash charitable contributions made during each taxable year beginning in 2020. Such contributions cannot be made for the establishment or maintenance of a Donor Advised Fund or an organization organized and operated exclusively for the benefit of, to perform the function of, or to carry out the purpose of a Supporting Organization.

For individual taxpayers who elect to itemize deductions for 2020, the CARES Act eliminates the limit on deductible contributions that do not exceed the excess of such a taxpayer's contribution base over the amount of all other deductible contributions. Such contributions must be made in cash and cannot include those made for the establishment or maintenance of a Donor Advised Fund or an organization organized and operated exclusively for the benefit of, to perform the function of, or to carry out the purpose of a Supporting Organization. Therefore, such individual taxpayers can deduct cash gifts made directly to a public charity during 2020 to the extent of 100% of their Adjusted Gross Income. Contributions to a Donor Advised Fund or a supporting organization do not qualify. Prior to the CARES Act, individuals could only deduct cash contributions up to 60% of their Adjusted Gross Income.

The CARES Act also provides that individual taxpayers may deduct up to 25% of taxable aggregate income for contributions of food inventory from their trade or business. Individual taxpayers' deductions for such contributions were previously capped at 15% of taxable aggregate income.

Retirement Plan Changes

The CARES Act has provided several types of relief to individuals with respect to retirement accounts.

Withdrawals from Retirement Accounts

Generally, the Internal Revenue Code has imposed a ten percent (10%) early withdrawal penalty on distributions from a retirement plan taken prior to an individual attaining the age of 59 ½ years of age.

As outlined in Section 2103 (a) (4) of the CARES Act, an individual is affected by COVID-19 if:

1. He or she is diagnosed with COVID-19;
2. His or her spouse or dependent has been diagnosed with COVID-19; or
3. He or she experiences adverse financial consequences as a result of being quarantined, furloughed, laid off or having work hours reduced, unable to work due to lack of child care, closing or reducing hours of a business he or she owns or operates due to COVID-19, or other factors determined by the Secretary of the Treasury.

From March 28, 2020 until December 31, 2020, the CARES Act permits such individuals affected by COVID-19 to withdraw up to $100,000 from a retirement plan, without penalty, so long as distributions are repaid within three years. An individual may choose to repay the full amount withdrawn anytime within the three year or opt to pay tax on the withdrawal over the extended term.

Loans from Retirement Accounts

The CARES Act doubles the available loan amount from retirement plans. Section 2103 (b) raises the limit an individual may borrow to the lesser of $100,000 or 100% of the account balance. This loan may be taken within 180 days from the date the CARES Act was enacted. Repayment dates for any loans due between March 28, 2020 and December 31, 2020 may be extended for one year and subsequent repayments shall be appropriately adjusted to reflect the delay and any interest accruing during such delay.

The Internal Revenue Service (IRS) has yet to issue guidance on how an individual should elect to make repayments, whether partial repayments are permissible, and how individuals should report repayments to plans and to the IRS.

Required Minimum Distributions (RMDs)

Section 2203 of the CARES Act suspends required minimum distributions during 2020. This waiver applies to Traditional IRAs, SEP IRAs, SIMPLE IRAs and 401(k), 403(b), and Governmental 457(b) plans. Additionally, this suspension extends to both retirement account owners and required beneficiaries of inherited IRAs taking distributions. Individuals who turned 70 ½ in 2019, who did not take their first RMD do not have to take either the 2019 RMD or their 2020 RMD.

If an individual has already taken the RMD for 2020, they may be able to reverse it by paying assets back into the account within 60 days of the distribution, taking advantage of what is known as the 60-day rollover rule – however, this does not apply to inherited retirement accounts. If an individual took an RMD earlier in the year, and the 60-day rollover rule has expired, they may be permitted to pay the RMD funds back to the account if it can be shown that they have been impacted by COVID-19. To demonstrate that an individual has been impacted by COVID-19, the individual must fall within one of the above-mentioned coronavirus-related distribution categories required for eligibility for retirement account withdrawals. The rollover can be completed anytime for the next three years (calculated from the date the distribution was received). If there is no need to take an RMD, taxable income for 2020 may be lowered.

For specific types of inherited accounts, such as those passing to an estate, charity, or certain types of trusts at death, generally the beneficiary is required to distribute the account within five years of the owner's death. If 2020 is one of the five distribution years, the CARES Act provides beneficiaries with an extra year, ideally changing this rule to a six-year rule.

If you should have any questions or would like to discuss this further, please feel free to

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