

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

Key Provisions That Affect Clients

The world has experienced considerable upheaval in the wake of the COVID-19—also referred to as coronavirus—outbreak. On March 27, Congress passed, and the president signed into law the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The bill includes \$2 trillion in comprehensive, emergency fiscal stimulus to support American individuals, businesses, and state and local governments. We have compiled some of the highlights that directly affect our individual clients. Here are some of the most important provisions that affect individual taxpayers and small-business owners.

> 2020 Recovery Rebate

- Eligible individuals will receive a credit in the amount of \$1,200 for single individuals or \$2,400 for married individuals who file jointly.
- Parents may be eligible for credits for their children who meet the criteria (for example, under the age of 17 at the end of 2020, the child is claimed as a dependent on the parents' return).
- The credit is reduced by a certain percentage based on the taxpayer's adjusted gross income (AGI) exceeding certain thresholds (\$75,000 for single individuals and \$150,000 for married couples filing jointly).
- The rebate is completely phased out for single taxpayers with incomes above \$99,000 and \$198,000 for joint filers with no children.
- The credit is based on AGI reported on a 2018 tax return or a 2019 tax return that was already filed this year.
- An eligible individual is treated as having made an income-tax payment for 2019, and the IRS will refund the credit amount.

> Student Loan Provisions

- Employers may make payments to employees or lenders up to \$5,250 for student loans before January 1, 2021, and have the amount excluded from the employee's income.
 - The amount applies to student loan repayments and any other educational assistance. Total for the year cannot exceed \$5,250.
- Federal student loan payments are suspended through September 30, 2020.
 - Interest will not accrue while payments are suspended.

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Charitable Contribution Provisions

- An “eligible individual” may take an above-the-line deduction up to \$300 for qualified charitable contributions.
 - “Eligible individual” is a person who does not elect to itemize deductions.
 - The single-filer maximum is \$300. If a married couple files jointly, each spouse could contribute for a total of \$600.
- For taxpayers who do itemize, the Act suspends the AGI limitations on deductions for cash contributions made in 2020 to public charities.
- Individuals who make qualified contributions may deduct up to 100% of their AGI after factoring in charitable contributions that are subject to the AGI limitations for 2020.
 - Qualified contributions are charitable contributions if:
 - They are paid in cash to a public charity.
 - The taxpayer has elected to apply this provision with respect to the contribution.
- Excess deductions can be carried forward subject to the income limit for that year.
- Contributions to donor-advised funds and supporting organizations do not qualify

Retirement-Related Provisions

Access to Retirement Funds

- Coronavirus-related distributions
 - Distributions cannot exceed an aggregate of \$100,000.
 - A “coronavirus-related distribution” means any distribution from an eligible retirement plan made between January 1, 2020, and December 31, 2020:
 - To an individual who is diagnosed with COVID–19 or whose spouse or dependent is diagnosed, or
 - To an individual who experiences adverse financial consequences as a result of:
 - Being quarantined, furloughed, or laid off, or having work hours reduced.
 - Being unable to work due to lack of child care.
 - Closing or reducing hours of a business owned or operated by the individual due to the disease.
 - Other factors determined by the U.S. Secretary of the Treasury.
- The income will be spread ratably over three years unless the taxpayer chooses to recognize the income for 2020.
- The amount may be fully or partially repaid within three years from the date of distribution.
 - For plans other than IRAs, repayment will be treated as a rollover.
 - For IRAs, repayment will be treated as a trustee-to-trustee transfer.
- The 10% early distribution penalty is waived for distributions made before age 59½.
- There is no mandatory withholding on distributions.
- The employee certifies that it is a coronavirus-related distribution.

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Loan Provisions

- For loans made within 180 days of enactment of the CARES Act (March 27, 2020), the limits for loans from employer-sponsored plans are increased from the lesser of 50% or \$50,000 to 100% or \$100,000 of the vested account balance.
- Loan repayments for participants affected by the coronavirus that are due between March 27, 2020, and December 31, 2020, are delayed for one year, which will extend the loan repayment period beyond five years.

Waiver of Required Minimum Distributions (RMDs)

- Applies for defined contribution plans including 401(k), 403(b), and governmental 457(b) plans as well as traditional IRAs, SEP-IRAs, and SIMPLE IRAs.
- Required minimum distribution rules will not apply for 2020.
 - For account owners who turned age 70½ in 2019 but had not taken a distribution, the distribution is waived.
 - Applies also to inherited IRAs.
 - If a taxpayer is subject to the five-year rule, 2020 is not counted.

Business Provisions

Paycheck Protection Program

- A Small Business Administration (SBA) loan program is established for small businesses (fewer than 500 employees, generally), nonprofit organizations, veteran's organizations, or Tribal business.
 - Includes self-employed and independent contractors.
- The covered period is February 15, 2020, through June 30, 2020.
- The maximum loan is 2.5 times the average monthly payroll costs but not more than \$10,000,000.
- Allowable uses include payroll costs, rent, utilities, and interest on debt.
 - Payroll costs:
 - Salary, wage, and commission
 - Cash tip
 - Payment for vacation, parental, family, medical, or sick leave
 - Dismissal or separation payment
 - Group health-care benefit
 - Retirement benefit
 - Not more than \$100,000 per employee, independent contractor, or self-employed person
- The borrower is eligible for principal forgiveness for amounts spent during the eight weeks after origination for:
 - Payroll costs.
 - Rent.
 - Mortgage interest.
 - Utilities.

(cont.)

- The amount eligible for forgiveness is reduced if headcount is reduced.
 - This provision may be disregarded if employees are rehired within the time period that ends June 30, 2020.
- Forgiveness is reduced if compensation is reduced beyond certain levels.
- Maximum interest on the remaining loan is 4% after forgiveness.

Employee Retention Credit

- Refundable Payroll tax credit for 50% of wages (up to \$10,000) for eligible employers.
 - An eligible employer is one that:
 - Is ordered by an appropriate government authority to suspend or reduce business due to COVID-19.
 - Suffered significant revenue decline due to COVID-19.
 - May not use if it has an SBA-forgivable loan.

Delay in Employer Payroll Taxes

- The employer share of payroll taxes may be deferred as follows:
 - 50% of amount due until December 31, 2021
 - 50% of amount due until December 31, 2022
- Not available if taxpayer had debt forgiven due to the Paycheck Protection Program.

For more information on how the CARES Act may impact clients,
please contact the Retirement Strategies Group at
(800) 722-2333, ext. 3939, or send an email to RSG@PacificLife.com.
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