



STILES FINANCIAL SERVICES

I N C O R P O R A T E D

The CARES Act



Understanding the CARES Act: Beyond the Headlines

On Friday March 27th, 2020, the Coronavirus Aid, Relief and Economic Security (CARES) Act was signed into law. The purpose of the CARES Act is to provide some immediate financial relief to individuals, layer Federal unemployment benefits on top of state-provided benefits, provide enhanced access to retirement funds for those directly impacted by COVID-19, and provide tax relief to businesses and loans to small businesses.

The SFSI team has been reading dozens of articles, attending numerous webinars, and conversing with attorneys and other advisors on the key pieces of this Act and what it means for our clients. We found the attached piece to be a helpful resource to hit the main takeaways of the 880-page Act. Not all the items on the handout are covered below. We do, however, want to elaborate on a few key points because, as with everything, there is more to the story than the headline.

DIRECT PAYMENTS - The stimulus checks have seemed to generate the biggest buzz but there are parameters for who qualifies for this one-time payment. Based on your 2019 Federal tax return (or 2018 if you have not yet filed), a single person who earned \$75,000 (\$150,000 filing jointly) will receive \$1,200 (\$2,400 joint). For each dependent there will be an additional \$500. What most recaps do not include is that for a head-of-household filer (single with a dependent) the limit is \$112,500. Above those limits the benefit decreases. There are online calculators to help you see what your benefit will be. One example can be found here:
<https://www.kiplinger.com/tool/taxes/TO23-S001-stimulus-check-calculator-2020/index.php>

REQUIRED MINIMUM DISTRIBUTIONS – These annual required distributions from all qualified accounts (IRAs, 401k's, etc.) have been waived for 2020, including those attributable to 2019 but due in 2020. This applies to every type of account. For anyone who already took their RMD for 2020, the distribution can be rolled back into a qualified account to avoid being included in taxable income for 2020. Generally the rule has been that it needs to be done within 60 days and that is still the case. However, there seems to be some consensus that the repayment window may be waived for 2020 with further legislation.

RETIREMENT ACCOUNT CHANGES - Also included were some *optional* changes for retirement accounts for those who have qualifying circumstances (Coronavirus Related Distributions (CRD)). Our main observation is that these features are communicated as changes that will be adopted by all plans, *which we have found is not the case*. Plans can choose the features they want to adopt, and set lower limits to the distribution amounts.

Plan Loans -- Not all retirement plans offer loan provisions. So, unless an employer chooses to add this to their plan, the adjusted limits (which at this time are only available to CRD eligible individuals until September 23, 2020) would not apply. Loans may be a more attractive option for accessing funds because they do not deplete a participant's balance *and* as long as the loan is current on payments it is not taxable. If a participant cannot repay the loan, it will become taxable income in the year they default, and it will not qualify for the CRD tax treatment listed below for in-service distributions.

Distributions -- Anyone with a CRD will *not* have the 10% early withdrawal penalty currently in place for those under age 59 ½. And, the taxes on these distributions can be spread out over three years. If possible, a CRD can be rolled back into another qualified account within three years to decrease the taxes due (and tax returns would need to be amended!). This is still very new so not all states have agreed to the federal tax guidelines on these distributions. If they have different income recognition rules the full amount may be taxable to the state in 2020.

WE ARE HERE – The term “unprecedented time” is included in daily conversations now, and we are all adapting to the fast-changing situation. We remain committed to being here for our clients and answering any questions you have. We are a team of professionals who are ready to listen and keep you informed while we weather this together.

[Read the CARES Act Article](#)

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