

WILEY BROS.
AINTREE CAPITAL, LLC.

40 BURTON HILLS BOULEVARD

NASHVILLE, TENNESSEE 37215

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Breaking down the CARES Act

As you know, the coronavirus pandemic has created both a health crisis *and* an economic crisis. As of this writing, there are over 160,000 known cases.¹ By the time you read this, there will certainly be more – and that number does not reflect those who have been infected but not tested. The economic cost, meanwhile, has resulted in millions of Americans losing their jobs. Some economists at the Federal Reserve estimate the unemployment rate could rise as high as 32%!²

To help address both crises, Congress recently passed the ***Coronavirus Aid, Relief, and Economic Security*** (CARES) ***Act***. It's a massive, \$2 trillion stimulus package designed to help everything from hospitals, to individuals, to businesses large and small. Time will tell if it will be enough to blunt the impact of this pandemic, but the fact Congress was able to pass something so significant, so quickly, is a rare feat worth celebrating.

Charles Darwin once said, *"It is the long history of humankind that those who learned to collaborate and improvise most effectively have prevailed."* For many years now, that is not a quote you could usually apply to the United States Congress. Political partisanship has meant that gridlock usually prevails over collaboration. Thankfully, both sides of the aisle recently proved the institution still works when people put aside their differences and work together for the common good.

This is major legislation, with benefits for almost every American. Some of the bill's provisions are especially important for retirees. So, to help you understand what the CARES Act does, and how it will impact *you*, I have prepared a special breakdown. As I am sending this to all my clients, some information may apply to you, and some may not. Please read it carefully, and then let me know if you have any questions.

As always, I hope you and your family are staying healthy and safe. Please let me know if there is anything I can do for you!

Sincerely,



Robert G. Elliott, CFP
Vice President

Important Provisions of the CARES Act

The CARES Act is designed “to provide emergency assistance and health care response for individuals, families, and businesses affected by the 2020 coronavirus pandemic.”³ Think of it as a kind of massive care package. Just as an actual care package is meant to get somebody through a tough time, that’s what the CARES Act is designed to do. Because so many people have either lost their job, seen their hours cut back, or experienced drastic changes to their daily lives, many Americans must now contend with potential cashflow problems. The CARES Act contains a number of provisions to help individuals and businesses handle those problems, at least for the short-term.

What follows is a brief overview of the provisions that could affect you and your finances. Let’s start with:

DIRECT PAYMENTS⁴

What’s the quickest way to ensure people get the money they need? Pay them directly. Perhaps the most newsworthy aspect of this bill is that many taxpayers will receive a one-time direct payment to help them cover expenses.

Here’s a breakdown of how it will work.

Individuals who made up to \$75,000 in 2019 will receive **\$1,200**.

Heads of Household (single parents, for example) who made up to \$112,500 in 2019 will receive **\$1,200**.

Married couples filing a joint tax return who made up to \$150,000 in 2019 will receive **\$2,400**.

On top of this, each taxpayer will receive **up to \$500 for each child** they have under the age of 17. So, for example, a married couple with two children would receive \$3,400.

Note that payments decrease for individuals and married couples with income above their respective thresholds. Specifically, payments shrink by \$5 for every \$100 earned above the \$75,000/\$150,000 limits. The payments disappear entirely for individuals who made \$99,000 or more, and for married couples who made \$198,000 or more.

So, when will this money actually arrive? It’s unclear. The IRS could start issuing payments sometime in April or May, but an official schedule has not been released. (The CARES Act itself only mandates that payments be made “as rapidly as possible.”⁴) It’s likely that those who filed their 2019 tax returns with direct-deposit information will receive payments first.

If you haven’t filed your tax return for 2019 yet, please let me know. I would be happy to work with your tax preparer to expedite the process.

Speaking of tax filing...

NEW TAX DEADLINES⁵

This isn’t technically part of the CARES Act, but I’m going to cover it anyway because it’s important. Due to the pandemic, IRS has extended this year’s tax-filing and payment deadlines.

Now, taxpayers have until **July 15** – up from the standard April 15 – to file their 2019 tax returns. The deadline to make IRA and Roth IRA contributions is now July 15 as well.

Note that this new deadline applies to *everyone*, not just those who are sick, under quarantine, or materially affected by the coronavirus in some way. And if you've already filed your return, you should still receive your refund around the same time you would during a typical tax season.

UNEMPLOYMENT⁴

Let's get back to the CARES Act.

I said a moment ago that direct payments were the most newsworthy aspect of the bill. But for the overall economy, the bill's unemployment provisions are probably the most important. Unemployment claims rose by 3.28 *million* between March 15-21. That's the highest weekly surge in history. The previous record? 695,000.⁶

To help combat this, the CARES Act provides approximately \$260 billion in unemployment assistance for those who lose their jobs. This includes freelancers, independent contractors, and other self-employed workers. That's a major change, because under normal circumstances, they can't apply for unemployment benefits.

Generally, workers who lose their jobs will receive \$600 per week for four months, *in addition* to what their state unemployment program pays. The CARES Act also adds an additional thirteen months of federal unemployment insurance on top of a person's state benefits.

If any family members lose their job, please let me know. I would be happy to answer their questions or provide any assistance I can.

BUSINESS SUPPORT⁴

Even those who *don't* lose their jobs will still want to keep a close eye on our nation's unemployment rate. More people out of work means less people spending money on the economy – which can have a profound influence on the markets. That's why one of the most critical things the government can do right now is *help businesses avoid laying people off*.

Roughly \$350 billion of the legislation's price tag is geared towards just that. Companies with up to 500 employees can receive loans of up to \$10 million. Any portion of the loan used to maintain payroll or retain workers – at least through the end of June – will be forgiven. In addition, businesses can apply for grants of up to \$10,000 to cover their operating costs.

For larger businesses, the CARES Act sets aside around \$500 billion in loans and grants, especially for hard-hit industries like airlines. And for companies that are forced to close or furlough workers, the legislation “covers to 50% of payroll on the first \$10,000 of compensation, including health benefits, for each employee.”⁷

These are all necessary steps to keep our economy going. Will they be enough? That's an open question. The answer largely depends on how long the pandemic lasts – and how well Americans commit to social distancing to stop the virus' spread. Watch this space.

RETIREMENT FUNDS⁴

I said at the beginning of this message that some of the CARES Act's provisions are especially important for retirees. Let's cover those now.

First up, Required Minimum Distributions, or **RMDs**. In a normal year, anyone 72 years or older would need to withdraw a minimum amount from their IRA or 401(k). Not this year. Under the CARES Act, all RMDs are suspended in 2020. That means you can leave that money in your retirement account for the year if you don't need it now. Note that this applies both to retirement account owners *and* beneficiaries.

People who have already taken their distribution for 2020 can potentially return the money to their account if they want. This could be a slightly complicated process, so I won't cover it here. However, if you want further information about it, let me know.

The CARES Act also waives the 10% early withdrawal penalty for retirement accounts. Withdrawals will still be taxed, but spread over a three-year period. Under most circumstances, my advice is to leave your retirement savings where they are, but it's nice to know that early withdrawals are an option if you need them.

Finally, the CARES Act increases the 401(k) loan-limit from \$50,000 to \$100,000.

If you have questions about any of these provisions, or how they apply to you, let's chat!

COMBATTING THE CORONAVIRUS⁴

Finally, it should come as a great comfort to know that the brave doctors, nurses, and scientists on the front lines are getting assistance, too. Specifically, the CARES Act provides \$100 billion for hospitals, \$1.32 billion for community health centers, \$11 billion for coronavirus treatments and vaccines, \$16 billion for additional medical supplies, like ventilators and masks, and \$20 billion for veterans' health care. You should know, too, that the Act includes a telehealth program so that if you can't leave home, you can still have a virtual appointment with your doctor.

My heart goes out to all those giving their time, talents – and sometimes, lives – to keep the rest of us safe. They are true heroes, and I am so grateful for them. Let's all do our part to make their jobs just a little easier by maintaining our distance, keeping clean, and staying home as much as possible.

CONCLUSION

As you can see, the CARES Act is a loaded piece of legislation. Time will tell whether more measures are needed, but this is definitely a good start.

Of course, my team and I will continue poring over these changes. If there is anything else we feel you need to know, we'll reach out to you. In the meantime, if you have any questions about:

- Getting a direct payment
- Filing your taxes
- Protecting your paycheck and/or income
- Your retirement accounts

Please don't hesitate to let me know. Whether we're in the office or working from our own homes, my team and I are *always* here for you.

Stay healthy, and stay safe!

Sources

- ¹ “Cases in U.S.,” *Centers for Disease Control and Prevention*, March 31, 2020. <https://www.cdc.gov/coronavirus/2019-ncov/cases-updates/cases-in-us.html>
- ² “Coronavirus job losses could total 47 million, unemployment rate may hit 32%, Fed estimates,” *CNBC*, March 30, 2020. <https://www.cnbc.com/2020/03/30/coronavirus-job-losses-could-total-47-million-unemployment-rate-of-32percent-fed-says.html>
- ³ “Text of S. 3548,” *United States Senate*, <https://www.congress.gov/bill/116th-congress/senate-bill/3548/text>
- ⁴ “Text of the Coronavirus Aid, Relief, and Economic Security Act,” *United States Congress*. <https://www.congress.gov/116/bills/hr/748/BILLS-116hr748enr.pdf>
- ⁵ “New Details From the IRS on July 15 Tax Deadline, Audit Relief,” *The Wall Street Journal*, March 30, 2020. <https://www.wsj.com/articles/new-details-from-the-irs-on-july-15-tax-deadline-11585087948>
- ⁶ “Unemployment claims soared to 3.3 million last week, most in history,” *CNN Business*, March 26, 2020. <https://www.cnn.com/2020/03/26/economy/unemployment-benefits-coronavirus/index.html>
- ⁷ “What’s Inside the Senate’s \$2 Trillion Coronavirus Aid Package,” *NPR*, March 26, 2020. <https://www.npr.org/2020/03/26/821457551/whats-inside-the-senate-s-2-trillion-coronavirus-aid-package>