

Planning Strategies

March 2020

Tax Update: Coronavirus Relief

As part of the federal government's reaction to the coronavirus pandemic, the IRS has implemented a number of tax relief programs. In addition, on Friday March 27, 2020, Congress passed the Coronavirus Aid, Relief and Economic Security Act (CARES Act), a landmark stimulus bill designed to support the American people and businesses during the crisis and to restart the economy. The legislation is truly monumental; it calls for over \$2 trillion of fiscal stimulus. Below, we review several aspects of these recent developments. The legislation is 880 pages long and covers many important topics that we cannot summarize for you here. Additional bulletins will be released over the coming weeks and months as we grapple with the issues. We encourage you to call us if you have questions about these and other aspects of the federal relief effort as well as your accounts with 1919 Investment Counsel.

IRS Postpones Tax Deadline to July 15, 2020

In Notice 2020-18 (issued March 18, 2020), the Internal Revenue Service (IRS) announced a new July 15 deadline for filing federal income tax returns and paying taxes in response to the ongoing coronavirus pandemic. Specifically, the Notice states that:

- The due date for paying federal income taxes and filing 2019 income tax returns has been automatically postponed from April 15 to July 15, 2020. No extension request is required to get this postponement.
- This income tax postponement applies to individuals, trusts, estates, partnerships, associations, and corporations.
- There is no limitation on the amount of the tax payment that may be postponed.
- As a result of the postponement, the period from April 15, to July 15, 2020, will be disregarded in the calculation of any interest and penalties for failure to file or to pay the Federal income taxes.

As a result of this announcement, a number of questions have arisen about how the postponement affects related tax deadlines and other types of taxes. The IRS's website answers some of the more common questions about this relief. Because you also may have such questions, we have summarized a few of the items that may be of interest to you:

- *Additional extensions:* Individuals can request an automatic extension of time to file their federal income tax return through October 15, 2020, by filing IRS Form 4868. You must request the automatic extension by July 15, 2020.
- *2020 estimated taxes:* The Notice postpones the deadline for first quarter 2020 estimated income tax payments due on April 15, 2020 to July 15. However, second quarter estimated tax payments are still due on June 15.
- *2019 estimated taxes:* If you failed to make the required installments of estimated tax during 2019, the relief does not change the estimated tax requirements or estimated tax penalty for 2019.

- **2019 IRA contributions:** The postponement of the tax filing deadline allows you additional time, until July 15, 2020, to make a contribution for 2019 to your IRA.
- **State taxes:** IRS Notice 2020-18 applies only to federal income taxes. State filing and payment deadlines vary and are not always the same as the federal filing and payment deadline. Check with your state tax agencies for those details. However, we have found that most state revenue agencies are following the federal guidance. The AICPA's website has a detailed chart of various state tax deadlines that are being changed as a result of the pandemic.
- **Estate taxes:** The postponement does not apply to estate taxes. Estate taxes are due 9 months after death. A 6-month extension of time to file may be obtained by requesting an extension.
- **Gift taxes:** Gift (and GST) tax returns are due annually on April 15. The IRS announced on March 27, that the due date for 2019 gift (and GST) tax returns and payments would be July 15, 2020.

Congress Passes CARES Act

The Coronavirus Aid, Relief and Economic Security Act provides for economic aid and tax relief for numerous industries and people affected by the coronavirus pandemic of 2020. Here is a summary of some key provisions that may affect you.

Coronavirus relief payments

The Act provides for tax credits to be issued immediately in the form of checks (or electronic deposits) to most Americans in the amount of \$1,200 and \$500 for their dependents. The credits are means tested and will phase out for people with Adjusted Taxable Income over

\$75,000 (if you are single) and \$150,000 (if you are married). If your income was more than \$99,000 (single) or \$198,000 (married), you aren't eligible for this program. In addition, no checks will be issued to estates or trusts, nonresident aliens, or individuals who can be claimed as a dependent by another person. The relief payments are not taxable income.

Charitable contribution deduction expanded

The CARES Act allows two new types of charitable contribution deductions. In both cases, the contribution must be in cash and cannot be donated to a private foundation or Donor Advised Fund (DAF):

- If you claim the standard deduction rather than itemize your deductions, a new above-the-line charitable deduction up to \$300 will be allowed for cash gifts to charity. This change is permanent and effective as of January 1, 2020.
- For those who do itemize, the CARES Act has removed the deduction limitation on qualified contributions to charity made since January 1, 2020. Any amount of cash that you donate to a public charity this year is fully tax deductible. If the donation exceeds your Adjusted Gross Income, then the excess deduction may be carried forward to future tax years.
- Charitable donations to foundations, DAFs or gifts of appreciated securities, will continue to be subject to the regular AGI limitations and other rules.

RMDs from retirement accounts suspended

The CARES Act suspends the required minimum distribution (RMD) rules for 2020. No RMDs are required from any defined contribution plans, such as a 401(k), 403(b), or IRA (including inherited IRAs). The suspension applies to all types of IRAs and pertains to

regular 2020 RMDs as well as the April 1, 2020, deadline for those who turned age 70½ in 2019. In 2021, RMD rules will resume as usual. The CARES Act does not require a catch-up distribution in 2021.

In addition, if you have already taken part or all of your RMD in 2020, you may roll over that amount into an IRA and, thus, avoid the tax and reinvest the money. However, you must do so within 60 days of receipt. But the IRS may grant an exception to that, as they did in 2009, to allow rollovers beyond the 60-day period. Taxes withheld on an RMD would not be refunded until the 2021 filing season, so you would have to use other funds to complete the full rollover. This special rollover rule would not apply to an inherited IRA if an RMD has already been taken.

Penalty-free withdrawals from retirement accounts

Normally, if you are under age 59½, there is a 10% penalty on early withdrawals from a retirement account unless you qualify for certain hardship exceptions. The CARES Act waives the 10% early withdrawal penalty in 2020 for taxpayers facing virus-related challenges. Withdrawn amounts will be taxable over three years, but taxpayers can recontribute the withdrawn funds into their retirement accounts within that period without affecting retirement account caps. Eligible retirement accounts include IRAs, 401(k)s and other qualified plans and qualified annuities.

This provision applies to individuals who have been diagnosed with SARS-CoV-2 or COVID-19 by a test approved by the Centers for Disease Control and Prevention (CDC), their spouse or dependent who has been diagnosed by such a test, or a person who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, or suffered reduced working hours, or who is unable to work due to lack of child care. The

CARES Act allows a plan to rely on a certification provided by the participant for this purpose. To the extent that the withdrawn amounts are not repaid, they will be included in income ratably over 2020 to 2022.

Distributions will be also will be treated as exempt from tax withholding.

Loans from 401(k) plans and other qualified plans

For a 180-day period starting with the date of enactment, the CARES Act increases the dollar amount available for loans from qualified plans from \$50,000 to \$100,000 and increases the percentage limit for loans from 50% to 100% of the present value of your benefit under the plan. In addition, if you already have a loan against your retirement account, repayments due between now and the end of 2020, will be delayed for one year from the original due date. This provision applies to the same individuals as are covered by the penalty-free distributions discussed above.

Aid for small businesses

The Act includes a robust lending program for small businesses to be carried out by the U.S. Small Business Administration (SBA). The law allows the SBA to provide loans through approved lending institutions to eligible businesses to help pay operational costs like payroll, rent, health benefits, insurance premiums, utilities, etc. Subject to certain conditions, the loans are forgivable. No collateral or personal guarantee will be required for a loan and the interest rate may not exceed 4%. Additionally, the SBA has no recourse against any individual, shareholder, member, or partner of an eligible loan recipient for non-payment, unless the proceeds are used for unauthorized purposes. The amount of the loan available under this program is computed using a formula set forth in the Act. We expect the SBA's website to contain detailed information about how to apply for this relief in the coming days.

Don't forget about estate planning

Estate planning is one of these things most people don't enjoy talking about. Perhaps that's because it requires us to confront our own mortality and to make hard decisions about who gets what and choosing a fiduciary. But an estate plan does more than that and is an essential aspect of your overall financial plan

as well as your family's. The coronavirus pandemic has raised awareness about the importance of having an estate plan. It includes making sure that beneficiaries are correctly designated in your retirement accounts and life insurance policies and that assets are properly titled. Please refer to our recent piece entitled [Financial Planning during Volatile Markets](#), for a discussion of these topics.

Contact your Portfolio Manager or Client Advisor to discuss these or any topics on your mind. Of course, you should also consult with your tax preparer and attorney on these types of matters. Although we may be working from home these days, we are all connected to the office and are here to help!



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Warwick M. Carter, Jr. is a Principal at 1919 Investment Counsel based in New York. As a Senior Wealth Advisor, his primary focus is generational wealth planning for high net worth individuals and families. He also advises on philanthropic planning. When giving advice, Warwick takes a comprehensive approach to assessing all aspects of a client's tax, financial and family situation. Warwick works closely with Portfolio Managers and Client Advisors in all of our offices to integrate wealth strategies with a client's investments. He regularly meets with outside advisors to devise appropriate solutions that will help grow wealth in a tax-aware way over the long term.

Warwick is a graduate of Denison University and the Columbus School of Law at The Catholic University of America. He also holds a master's in taxation from Georgetown University. He is admitted to the bar in New York and the District of Columbia. Warwick is also a member of the New York State Bar Association and the Society of Trust and Estate Practitioners (STEP).

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About 1919 Investment Counsel

1919 Investment Counsel, LLC is a registered investment advisor. Its mission for 100 years has been to provide counsel and insight that helps families, individuals, and institutions achieve their financial goals. The firm is headquartered in Baltimore and has regional offices across the country in Birmingham, Cincinnati, New York, Philadelphia and San Francisco. 1919 Investment Counsel seeks to consistently deliver an extraordinary client experience through its independent thinking, expertise and personalized service. To learn more, please visit our website at [**www.1919ic.com**](http://www.1919ic.com).

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