

Dear Client,

Amid this time of coronavirus pandemic and a volatile stock market, there have been other changes going on that we wanted to bring to your attention. As comprehensive financial planners, we are concerned about more than just investing – our financial planning committee continues to meet regularly to keep up to date on changes to tax law and estate planning that could affect your financial plan. In this commentary, we want to discuss the recent tax law changes with the CARES Act and other recent IRS and Treasury guidance.

Filing Deadlines

First, the Treasury Department has pushed back all personal IRS deadlines in April, May, and June until July 15th of this year. This applies not only to the regular tax return due date of April 15th, but also to the quarterly estimated tax payments due on April 15th and June 15th. If you need to make quarterly estimated tax payments in 2020, you now make the first payment of 50% on July 15th, with another 25% due on September 15th and the final 25% due on January 15th, 2021. The July 15th extension also applies to making 2019 IRA, Roth IRA, SEP IRA and HSA contributions.

Economic Impact Payment (Stimulus Checks)

Additionally, the IRS issued economic recovery rebates checks to all US taxpayers meeting certain criteria. Individuals with taxable income of \$99,000 or less on their 2018 or 2019 tax returns are eligible to get a check for \$600 to \$1,200. Married individuals filing joint with taxable income of \$198,000 or less are eligible to get a check for \$1,200 to \$2,400. Qualifying dependents also grant an additional \$500 payment each. If you included bank information on your most recent tax filing the IRS will send the payment directly to your bank; otherwise you will eventually get a check. See the online calculator at <https://www.irs.gov/coronavirus/economic-impact-payments> to better understand what you should expect as a payment. These checks are not considered taxable income for 2020.

Required Minimum Distributions

No Required Minimum Distributions (RMDs) are needed from IRA and 401K accounts in 2020. In years past, taxpayers were required to take out these payments starting at age 70 ½ (changes to age 72 starting next year) from qualifying retirement accounts. With these RMDs suspended, taxpayers can forgo the distributions entirely and have lower income or consider making Roth IRA conversions to get an additional tax benefit. Talk to your advisor to see what would make sense for your situation. Note that beneficiaries of inherited accounts can also forgo RMDs for 2020.

Borrowing from an IRA or 401(k)

For individuals in financial difficulty there are some temporary (2020 only) changes for accessing money from retirement accounts. Taxpayers can “borrow” \$100,000 from IRAs for COVID-19 relief if the taxpayer was affected (or their business/job was affected) by COVID-19. Taxpayers can pay back the distribution by the end of the year with no penalty (or over a three-year period if needed but with a tax effect). Additionally, taxpayers can also take out 401K loans up to \$100,000 with some restrictions loosened. We would normally not recommend withdrawing from retirement accounts like this, but for clients in a dire situation it can be better than taking on credit card or other high-interest rate debt.

Charitable Deductions

Taxpayers who do not itemize can now take a \$300 deduction for charitable contributions (\$600 for married filing joint). Furthermore, this provision appears to be a permanent for 2021 and beyond. Taxpayers can also take a deduction for up to 100% of Adjusted Gross Income for charitable contributions made in cash directly to a qualifying charity (for 2020 only).

Student Loans

Taxpayers with federal student loans can defer payments on those student loans from April until September 30, 2020, with all such loans having a 0% interest rate during this period. Additionally, student loan borrowers seeking forgiveness under the Public Student Loan Forgiveness program can count these deferred payment months as “qualifying payments” for that program.

Unemployment Benefits

Taxpayers in the unfortunate situation of being unemployed will have the benefit of additional federal unemployment benefits of \$600/week from April to July 31, 2020. Keep in mind that unemployment benefits are considered taxable income.

Be Patient

Finally, one last note. The IRS is struggling to implement the above changes while their staff are mostly working remotely (like many of us). Accordingly, the IRS has communicated that their call centers are not operational and that they are holding all paper mail received. Therefore, they are not expecting to process any mail received for several months. Therefore, we would advise clients to file electronically any returns you can and not expect any quick replies to written correspondence with the IRS. Clients can still use all of the online resources at www.irs.gov, including a webpage for checking the status of your stimulus check: <https://www.irs.gov/coronavirus/economic-impact-payments>. You can also update your address or bank information for the stimulus check at this website.

Sincerely,

The Financial Planning Committee
Legacy Wealth Management | Right by you.

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