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March 31st, 2020

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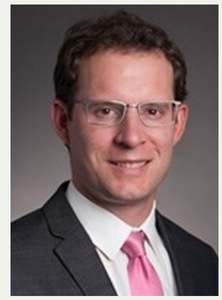

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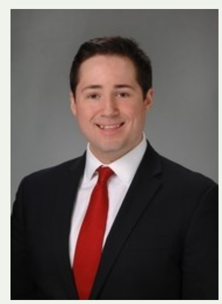

LEGAL ALERT

CARES Act – Economic Impact Payments and Individual Tax Changes

The Coronavirus Aid, Relief, and Economic Security Act ("CARES Act") was signed into law on March 27, 2020. Congress refers to the CARES Act as Phase III in its response to the COVID-19 epidemic. In this e-note, we focus on the Economic Impact Payments to taxpayers and changes to the individual income tax laws.

Economic Impact Payments

The CARES Act provides for economic impact payments of $1,200 for single taxpayers and $2,400 for joint tax filers to be issued as an advance refundable credit against a taxpayer's 2020 income tax returns. A taxpayer's eligibility for the economic impact payment is based upon the taxpayer's 2018 tax returns (or 2019 returns if already filed). In addition, there is an available credit of $500 per qualifying child of the taxpayer.

There is no minimum amount of income to be eligible for the economic impact payment. A person who is claimed as a dependent of another taxpayer is not eligible for the economic impact payment. The economic impact payments are subject to a phase out based on the adjusted gross income of the taxpayer (based on the 2018 income tax return or 2019 if already filed). The phase out begins at $75,000 for single taxpayers, $112,500 as Head of Household, and $150,000 for joint taxpayers, and is reduced by $0.05 for every dollar of adjusted gross income above these phase out amounts. The full phase out for taxpayers with no children is at $99,000 for single, $136,500 for Head of Household and $198,000 for joint taxpayers. The credit of $500 for each child would be phased out for each additional $10,000 amount of adjusted gross income. Thus, a married couple with two (2) children would be fully phased out from the economic impact payment with adjusted gross income in excess of $218,000.

If your 2018 adjusted gross income is lower than what you anticipate in 2019, and you fall below the full phase out limitations set forth above, it would be wise not to file your 2019 income tax returns as of yet. However, if your 2019 adjusted gross income is expected to be lower than in 2018, and you fall below the full phase out limitations set forth above, you should consider filing right away. If you had a child in 2019 or you were no longer deemed a dependent in 2019 (as compared to 2018), and you fall below the full phase out limitations set forth above, you should consider filing right away.

The IRS is still working through when and how it will distribute the economic impact payments, but Congress and the President are likely to exert maximum pressure on the IRS to issue the economic stimulus payments as quickly as possible. The IRS is permitted to issue the economic impact payments through direct deposit using your account information from your 2018 or 2019 income tax returns. Please note that if you didn't include direct deposit information on your 2018 or 2019 tax returns, the IRS is creating a portal to provide direct deposit information for taxpayers. After making the economic impact payments, the IRS is required to mail a notice (within 15 days after making payment) providing how the payment was made, the amount and a number to call with any issues in the delivery of the same.

Changes to Retirement Plans

In 2020, there are no required minimum distributions for IRAs, 401ks, 403bs, or 457 plans. If your required beginning date for taking an RMD was set to begin in 2020, it is delayed to 2021.

Plan participants in a qualified retirement plan may be eligible to withdraw from their plan up to $100,0000 without having to incur the 10% early withdrawal excise penalty for any "coronavirus-related distributions." The withdrawal is still considered taxable income, but shall be reported ratably over a period of three (3) years. Further, the taxpayer may return the amount within three (3) years and treat the distribution as a qualified rollover. A coronavirus-related distribution is to an individual who on or before 12.31.20: (a) is diagnosed with COVID-19; (b) whose spouse or dependent is diagnosed with COVID-19; or (c) experiences adverse financial consequences as a result of being quarantined, furloughed or laid off or having work hours reduced due to such virus, being unable to work due to lack of child care, closing or reducing hours of a business owned or operated by the individual, or other factors as prescribed by the Secretary of the Treasury.

401k loan limits are temporarily increased from $50,000 to $100,000 for new loans made within 180 days from the date of enactment of the CARES Act. Any 401k loan with loan repayment due dates from the date of enactment through 12.31.20, are to be delayed by one (1) year.

Changes to Charitable Deductions

The CARES Act makes a permanent change (not just for 2020) by adding an above-the-line deduction for those taxpayers who take the standard deduction. These taxpayers may now take an above-the-line deduction for charitable contributions up to $300. This above-the-line deduction is not available for those taxpayers who itemize their deductions.

For tax year 2020, the 50% of adjusted gross income limitation on charitable contributions is suspended, so a taxpayer may contribute up to 100% of their adjusted gross income and receive a full charitable contribution deduction against their income.

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