RESOLUTE FINANCIAL

Fee Only Financial Planning & Investment Management

April 2020

We put your interests first.®

Resolute Connections

With the first quarter of 2020 under our belt, it is safe to say it certainly has been one hell of a start to the year, one that will forever be remembered. Hopefully as you read this, you and your family and friends are safe and successfully avoiding COVID-19. Given the current situation we thought an explanation of the Coronavirus Aid, Relief, and Economic Securities Act, CARES Act, would be in order as the roughly $2 trillion stimulus package, passed last week, is Washington's most recent attempt to prevent a severe recession and to provide support to the many who have unfortunately lost their jobs due to the virtual shut-down of the economy. Many of us will be impacted by the CARES Act so it is worth a few moments to get a basic understanding of it. The final article offers a ray of hope concerning a potential virus.

Please be safe and we wish you continued health. If you have any questions about anything we have covered in the articles, or a specific situation please feel free to give us a call, or visit our website, www.ResoluteFinancial.com.

The CARES Act explained

The Coronavirus Aid, Relief, and Economic Securities Act was passes last week, and although the CARES Act's $2 trillion allocation to the economy has been compared to President Obama's 2009 American Recovery and Reinvestment Act, the more recent measure should be thought of as a relief effort, rather than economic stimulus. CARES is addressing the immediate fallout in the business world and in peoples' personal finances, an attempt to cushion the impact of social distancing and the loss of work and business that it entails.

The big picture perspective is that the CARES Act allocates $150 billion to enhance hospital capacity, a $500 billion loan fund for businesses in distress and $150 billion in direct support to state and local governments to help fight the coronavirus epidemic.

On top of that, the government will be cutting checks directly to individuals. The IRS will look at your 2019 tax returns (or 2018 if it can't find a 2019 filing) and send $1,200 to single filers with adjusted gross income below $75,000; $2,400 to joint filers with AGI below $150,000. The government will add $500 for each dependent under the age of 17. These benefits will phase out at higher income levels (you lose $5 for every $100 in income above the threshold), until they reach zero for a single filer with no children and an adjusted gross income of $99,000. It has been estimated that three-quarters of tax filers will qualify for aid, and that the total amount of all those checks will reach $507 billion.

Some people who did not file a 2018 or 2019 tax return because they earned less than the standard deduction might qualify otherwise; for example, for people who receive Social Security benefits, the government will determine their eligibility for a check based on their Form SSA-1099, Social Security Benefit Statement.

But many others will be left out of the distribution. Individuals without Social Security numbers are excluded and dependents over the age of 17 (including cared-for parents and disabled children) are also not eligible for the direct payment.

Some workers will find the CARES Act's expansion of unemployment insurance more helpful, financially. The Act expands the duration of unemployment insurance benefits by 13 weeks, and increases payments by $600 per week for four months. It makes so-called 'gig economy' workers and the self-employed eligible for unemployment benefits for the first time.

Finally, there are some tax provisions which were intended to help individuals weather this financial storm. This year, individuals under age 59 1/2 will be able to take out IRA or other retirement plan funds without the normal 10% penalty that would otherwise apply. If they take a "Coronavirus-Related Distribution," they will have up to three years to repay that distribution back into the retirement account. Otherwise, taxpayers can elect to spread the income from that Coronavirus-Related Distribution over a three-year period, or include it in their 2020 income.

The CARES Act also declared a moratorium on taking required minimum distributions (RMDs) from IRAs and other plans; this includes inherited IRAs. People who took a distribution this year will be allowed to return the money to their tax-deferred account is they so choose. However, people who have inherited IRAs and already took distributions for this year are not eligible to return the money back into the account – the return of payment only applies to one's retirement IRA.

Meanwhile, people who took out Federal student loans will be allowed to suspend payments through September 30, and no interest will accrue on this debt. And all involuntary debt collections are suspended for the same period, including wage garnishment or the reduction of tax refunds.

Finally, participants in Health Savings Accounts, Archer Medical Savings Accounts and Healthcare Flexible Spending Accounts will be allowed to use these assets to buy over-the-counter medications—something that was not permitted before.

There are, of course, a number of other provisions, including credits for small business to encourage them to maintain their payroll, deferral (but not elimination) of the employer match on FICA taxes, and the carryforward rules on net operating losses for corporations (other than REITs). The CARES Act is going to be pored over in detail in the coming weeks and months, but for now, let's hope that it provides some economic relief during one of the most difficult periods in our financial lives.

How CARES Works

Let's say you've received the CARES Act check from the U.S. government. The question then becomes: how is it taxed and how, exactly, is it administered? The answer is: it's complicated.

The simple answer is that the rebate is not taxable; it is considered to be a refundable tax credit, like the Child Tax Credit or the Earned Income Tax Credit; therefore, it doesn't increase your taxable income on your 2020 tax return.

But there may be an adjustment to how much you are owed. These "recovery rebates" are actually considered an "advanced payment" of a credit, and the amount you are eligible for could depend on the 2020 tax return that you won't file until next year.

When check recipients prepare their 2020 tax returns, they'll have to re-compute the payment that they should be receiving based on 2020 tax data. If they earned more money in 2020 than they did previously, or if a 17-year-old turned 18, they will have received an excess. This excess will, under the current Act, be forgiven.

But what if a taxpayer who did not receive a check due to high income is laid off in 2020, and therefore reports significantly less income from this year? He or she would be eligible receive a check, based on the same criteria that applied for the previous tax year.

In other words, if, an any tax year 2018, 2019 or 2020, a person's income falls under the payment thresholds ($75,000 for single taxpayers; $150,000 for joint filers, phasing out at $99,000 and $198,000 respectively), then that person would qualify for the payment. In cases where someone is in the phaseout range in 2019 but below the threshold in 2020, the government would, under the law, make up the difference. The same would be true if a child is born in 2019 or 2020, adding to the child credit amount promised by the government.

Confusing? Of course. But remember that this is the U.S. tax system that we're talking about.

Reason for Hope

The world's healthcare experts haven't been able to give us a definitive date as to when a coronavirus vaccine will finally come to market—for obvious reasons. There are a variety of vaccine formulas being tested on human subjects as you read this, but the researchers will have to test many different formulas and different dosages of each formula, and evaluate the impact on the immune systems of a significant number of test subjects.

Is there a better way to predict when all of this will lead to fruition? Peter Diamandis, founder and executive chairperson of the XPRIZE Foundation and author of Abundance—The Future Is Better Than You Think, who also holds degrees in aerospace engineering and molecular genetics from MIT and an M.D. from Harvard Medical School, turned to technology to solve the prediction problem. He created a FutureLoop web platform and asked 3,000 experts to predict the date when the Food and Drug Administration (FDA) would approve the first Covid-19 vaccine. Then he used machine learning and human intelligence in a symbiotic loop to analyze and hone the results, on the theory that crowdsourced predictions that are thoroughly evaluated by artificial intelligence will provide better predictions than any individual.

The result? The FutureLoop process predicted a vaccine approval date 8.64 months from now, by December 19, 2020. Interestingly, roughly 29% of the polled experts believe that the vaccine will be out in six months, by September 30.

Source:
Bob Veres Inside Edition Newsletter

For more information on these topics or for a free consultation, contact Resolute Financial, LLC at (978) 463-8771 ext. 1003.