
FINANCIAL PLANNING

A PEAPACK PRIVATE WEALTH MANAGEMENT PUBLICATION

THE CARES ACT

On Wednesday March 25, 2020, the U.S. Senate voted unanimously to advance the next phase of congressional responses to the national health emergency by passing legislation entitled the Coronavirus Aid, Relief, and Economic Security Act ("the CARES Act").

The legislation includes myriad provisions for public health spending designed to address the coronavirus, such as cash relief for individuals, a lending program for small business and relief for industries that have been adversely impacted economically by the health crisis. This legislation will need to be approved by the U.S. House of Representatives which is planning to convene Friday March 27, 2020, at which time the bill is expected to pass.

Assuming passage of the legislation in its current form, select provisions of the CARES Act that may prove more impactful for individuals include:

Retirement Provisions

- A one-year waiver for required minimum distributions (RMDs) from defined contribution retirement plans and IRAs. This provision does not apply to defined benefit plans. The delay applies to both 2019 RMDs that needed to be taken by April 1, 2020 and 2020 RMDs.
- The 10% penalty tax is waived for premature distributions from a retirement account related to the coronavirus. This amount is limited to \$100,000 from all plans subject to the following rules:
 - » The distribution provision applies to individuals, their spouse or a dependent who have been diagnosed with Coronavirus (COVID-19) by a test approved by the Centers for Disease Control (CDC). The person must also experience 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 childcare;
 - » The penalty free distribution provision covers retirement plans and IRAs;
 - » Amounts distributed may be repaid at any time over a three-year period beginning on the distribution date with no requirement that the repayment occur in one tranche;
 - » Amounts may be repaid to the qualified plan or IRA and considered a rollover contribution; and
 - » Coronavirus distribution amounts not repaid shall be considered taxable income and the resulting tax can be paid ratably over the three tax years beginning with the date the distribution was received.

Unemployment Relief

- Enhanced unemployment benefits of \$600/week above the maximum insurance benefit for a period of up to four months (even if the individual is currently earning less) and the one-week waiting period is waived. Jobless benefits are also extended beyond the typical 26 weeks to 39 weeks.

The definition of workers eligible to apply for unemployment benefits is greatly expanded to include self-employed, freelance workers, contract workers, and non-traditional workers.

- Recovery payments will be issued by the IRS of up to \$1,200 (\$2,400 for joint filers) for U.S. taxpayers structured as 2020 tax refunds. These amounts can be increased by \$500 for each qualifying child of the taxpayer. The payment amounts are phased out for taxpayers earning over \$75,000 (\$150,000 for joint filers), and \$112,500 for heads of household.

The payments are available even if the taxpayer has no income, and no action is generally required to claim the rebates. The IRS will use the taxpayer's 2019 tax return, if filed, or in the alternative, their 2018 return.

Charitable Contributions

- Certain limitations pertaining to charitable contributions are eased in an effort to encourage charitable giving in 2020 with the following provisions:
 - » Provides for an income tax deduction of up to \$300 for cash contributions regardless of whether the taxpayer itemizes deductions; and
 - » Suspends the 50% Adjusted Gross Income limitation on individuals for cash contributions to charitable entities.

Note, the above provisions do not apply to contributions made to an individual's donor advised fund.

Conclusion

It is important to note that at the time of this writing these provisions have not been formally approved. While they are expected to be approved, it is possible there will be slight variations before being enacted into law. As always, we will diligently stay abreast of the situation and keep you informed of all evolving legislation as details become available. If you have any questions regarding the items noted above or want to review potential impacts to your family situation please contact Peapack Private as we would be happy to discuss.



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