



Coronavirus Relief: What You Need to Know

Passed on March 27, 2020, the CARES Act was enacted to provide relief to Americans facing financial challenges due to the coronavirus pandemic.

April 2020

KEY INSIGHTS

- Many Americans are facing financial challenges due to the 2020 coronavirus pandemic, and the U.S. government has taken multiple steps to provide relief.
- CARES Act provisions for individuals include tax rebates, enhanced unemployment benefits, penalty-free access to retirement assets, and required minimum distribution and student loan relief.
- The CARES Act also includes help for business owners, including potentially forgivable loans and relief from employment taxes.



Roger A. Young, CFP®
Senior Financial Planner

In response to the financial challenges many Americans are facing due to the 2020 coronavirus pandemic, the U.S. government has taken multiple steps to provide relief. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, provides emergency financial assistance for affected individuals, families, and businesses. In addition, the Treasury Department announced that the due date to file and pay 2019 federal income taxes has been extended from April 15 to July 15, 2020..

This relief legislation is unprecedented in scope, with an outlay estimated at approximately \$2 trillion. Much of that amount is in the form of loans available to businesses. For individuals, we believe there are six areas with the most impact in the short term.

1. Tax rebates

The Treasury Department will issue rebates up to \$1,200 per individual or \$2,400 per married couple filing jointly, plus \$500 per qualifying child (a dependent child age 16 or under). These rebates will be sent via check or electronic transfer to bank accounts (but not investment accounts) “as rapidly as possible.” The money will be deposited via electronic transfer if the IRS has your bank account information already on file. No action is required on your part.

Payments are limited based on adjusted gross income (AGI). The rebates are reduced by 5% of AGI over certain levels.

Filing Status	Rebate Reduced by 5% of AGI in Excess of	AGI Level Where Rebate Is Completely Phased Out (for Taxpayers Without Qualifying Children)
Married Filing Jointly	\$150,000	\$198,000
Head of Household	\$112,500	\$136,500
Other Individuals	\$75,000	\$99,000

People are eligible for unemployment benefits in a broader range of circumstances, including self-employed, independent contractors, and those furloughed or unable to work as a result of the coronavirus.

The calculation of payments will be based on AGI reported for 2019 (or 2018 if a 2019 return has not been filed). Ultimately, however, the refund amount is an advance on a credit against 2020 taxes, so taxpayers could receive more when filing that tax return.

Individuals may want to consider:

- If you have been severely affected financially by the coronavirus, you should certainly use this money in any way necessary.
- If you are more financially stable, you may consider using it to build your emergency fund, reduce debt, or continue saving for retirement or other financial goals.
- If you have not filed your taxes for 2019, there are situations where you may receive more of the rebate based on your 2018 tax return.

2. Enhanced unemployment benefits

Benefits in calendar year 2020 have been enhanced in three ways:

- People are eligible for unemployment benefits in a broader range of circumstances, including self-employed, independent contractors, and those furloughed or unable to work as a result of the coronavirus.
- Duration of benefits is extended to as long as 39 weeks (with specifics depending on state laws).
- Benefit amounts are increased by \$600 per week through July 31, 2020.

Actions individuals may want to consider:

- If you are unemployed or become unemployed during 2020, you should file for unemployment benefits with your state even if you aren't sure whether you qualify. The legislation was written so that these benefits do not reduce eligibility for other government benefits such as Medicaid.

3. Access to retirement assets

Families adversely affected by the coronavirus will be able to access money in IRAs and workplace retirement plans as an early withdrawal without penalty in 2020.

If you, your spouse, or a dependent is diagnosed with COVID-19, the disease caused by the coronavirus, or if you are an impacted individual who faces adverse financial consequences related to the crisis, you can take a distribution up to \$100,000 without an early withdrawal penalty. Distributions from tax-deferred accounts, such as Traditional IRAs, will still incur income taxes, but that income is spread over three tax years (unless you elect otherwise). In addition, you can repay the distribution within three years and get back any taxes you paid.

If your workplace retirement plan allows loans, the CARES Act increased the maximum loan amount to \$100,000 or 100% of your vested account balance, whichever is smaller. This applies until September 23, 2020 (180 days after passage of the act), for people eligible for penalty-free distributions as described

IRAs and workplace retirement plans will not be subject to required minimum distributions (RMDs) in 2020.

above. The act also allows some deferral of plan loan repayments in 2020, including loans taken before the crisis.

Actions individuals may want to consider:

- While we generally caution investors to avoid withdrawing money from retirement savings, these provisions can be a big help if you face significant financial stress.
- Remember that workplace retirement plan loans typically have to be repaid quickly if your employment ends, and repayment relief may not extend into 2021. If you don't have cash to repay the loan, it counts as a distribution and could be subject to taxes and penalties. Therefore, you should assess your employment situation and, if you qualify, consider a penalty-free distribution from your IRA or workplace retirement plan or a hardship withdrawal from your workplace retirement plan as an alternative.

4. RMD relief

IRAs and workplace retirement plans will not be subject to required minimum distributions (RMDs) in 2020. This includes first-time RMDs for people who turned 70½ in 2019 but did not take their first RMD by December 31, 2019. It applies to everyone, not just people adversely affected by the coronavirus.

Actions individuals may want to consider:

- If you do not need a distribution from your IRA or workplace retirement plan in 2020 for spending, this provision gives you more flexibility. You may choose to take less from your tax-deferred accounts and reduce your taxes.
- Another option, if you expect you or your beneficiaries will be in a higher tax bracket in the future, is to convert some Traditional IRA assets to a Roth IRA.

- If you took an IRA distribution you don't need on or after February 1, 2020, you may be able to put that money back into your IRA (called a 60-day rollover). The IRS has extended the deadline for such rollovers to the later of 60 days or July 15. Keep in mind that you are only allowed one such transaction per 12-month period (measured from the date you receive the distribution).

5. Student loan relief

Federal student loan payments are suspended through September 30, 2020, without any interest accruing.

In addition, the federal government will not enforce involuntary collection efforts (such as wage garnishment) during this time. The months without payments will still count toward requirements for loan forgiveness programs.

Actions individuals may want to consider:

- If you are on solid financial footing, you can still choose to make payments, which will be counted against the principal balance. If you don't expect to get any of your balance forgiven, that will reduce the total amount of interest you pay over the life of the loan.

6. Delayed tax filing deadlines

The due date to file and pay (without interest or penalties) 2019 federal income taxes has been extended from April 15 to July 15, 2020. This new deadline now also applies to both first and second quarter 2020 estimated taxes. Along with that change, the deadline for making 2019 IRA contributions is also extended to July 15, 2020.

Actions individuals may want to consider:

- If you have not filed your 2019 tax return yet, you may want to estimate soon whether you will owe taxes or get a refund. If you expect to owe

The due date to file and pay 2019 federal income taxes has been extended from April 15 to July 15, 2020.

taxes, waiting to file until the new deadline can help your cash flow.

- You can also wait until closer to July 15 to assess your financial situation and whether you are in a good position to make an IRA contribution for 2019.

Additional items

In addition to passing these six provisions, the federal government has taken several other steps to help individuals. These include:

Charitable considerations

- All taxpayers can take deductions for qualified charitable contributions in 2020 of up to \$300. These “above the line” deductions are available if you don’t itemize, which gives people incentive to help charities in need.
- Charitable itemized deductions made in cash to public charities are generally limited to 60% of AGI, but that limit has been suspended for 2020. While that restriction did not affect many taxpayers, if you have ambitious charitable goals, this change gives you more ability to make a large impact in 2020. Note that this is intended for direct payments to charities, rather than to donor-advised funds or 509(a)(3) supporting organizations.

Testing, treatment, and potential vaccines for the coronavirus must be covered by health insurance plans

Relief for business owners

- If you are a small business owner, the CARES Act provides for loans based on 2½ months of average payroll. The loans can be used for certain other purposes, including benefits, mortgage, rent, and utilities. Interest rates are capped at 4%, and the loans can be partially or fully forgiven if the business maintains certain employment levels.
- In addition, businesses can generally defer payment of employment taxes in 2020, with half due by the end of 2021 and the other half by the end of 2022. Some companies severely affected by the coronavirus may be eligible for a credit to reduce those taxes.

The coronavirus crisis is affecting all of us, and for some it may be creating a major financial hardship. The U.S. government is providing relief to individuals and businesses through the largest economic stimulus in U.S. history, and there may be additional legislation to come. Explore the options available to you. T. Rowe Price is here to offer support and guidance with your financial plans through these uncertain times.

INVEST WITH CONFIDENCE®

T. Rowe Price focuses on delivering investment management excellence that investors can rely on—now and over the long term.

To learn more, please visit troweprice.com.

T.RowePrice®

Important Information

This material is provided for general and educational purposes only and is not intended to provide legal, tax, or investment advice. This material does not provide fiduciary recommendations concerning investments; it is not individualized to the needs of any specific benefit plan or retirement investor, nor is it intended to serve as the primary basis for investment decision-making.

The views contained herein are those of the authors as of April 2020 and are subject to change without notice; these views may differ from those of other T. Rowe Price associates.

All investments involve risk. All charts and tables are shown for illustrative purposes only.

T. Rowe Price Investment Services, Inc., Distributor.

© 2020 T. Rowe Price. All rights reserved. T. Rowe Price, INVEST WITH CONFIDENCE, and the Bighorn Sheep design are, collectively and/or apart, trademarks of T. Rowe Price Group, Inc.