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What the Coronavirus Stimulus Package Means for Investors and Retirees

On Friday, March 27th, President Trump signed into law The Coronavirus, Aid, Relief, and Economic Security Act ("CARES Act"). Besides billions of economic stimuluses for broad industries affected by the virus (e.g., airlines, restaurants, hotels), large corporations, hospitals, new loans to businesses, etc., the new law provides some level of economic relief to investors and retirees....

2020 "Recovery Rebate" Stimulus Checks

Single-filer taxpayers will receive a check from the federal government for $1,200. Joint-filers will receive a check for $2,400. For every child under the age of 17, tax-payers will also receive an additional $500 per child. Unfortunately, there is a phaseout for single-filers beginning for those who make over $75,000, ultimately completely phases-out for those who make more than $99,000. For joint-filers, this phaseout begins at $150,000 and ultimately completely phases out at $198,000. The IRS is using its data from taxpayers most recent tax returns to determine one's adjusted gross income ("AGI"). Bottom line: If you are a single-filer whose AGI is greater than $99,000, you will not be receiving a recovery rebate stimulus check from the federal government; the same is true if you are a joint-filer whose AGI is greater than $198,000.

Tax Return Filing Deadline Extended To July 15th

The IRS and federal government have also automatically extended all taxpayers' deadline to file their tax returns to July 15, 2020. Filing an extension is not necessary as this has been automatically determined for all taxpayers pursuant to IRS Notice 2020-18.

Extended Deadline For 2019 IRA Contributions

The IRS has also extended the deadline for taxpayers to make 2019 IRA contributions from April 15th to July 15th. Some taxpayers may wish to front-load their IRA contributions now in order to seemingly "buy low," with the expectation that the stock market has bottomed out and will continue to rise over the next few months (i.e., before July 15th).

RMDs Waived For 2020

If you own an IRA or 401(k), you are the proud owner of what the IRS refers to as a qualified-plan, meaning that it is qualified for taxes because all of that money is yet to be taxed. When consumers take withdrawals from those plans, they must pay ordinary income tax on that money. The SECURE Act from December 2019 changed the age for taxpayers to take Required Minimum Distributions ("RMDs") from age 70½ to age 72. Luckily, the IRS is waiving this year's 2020 RMD. This will benefit taxpayers two-fold:

1. Taxpayers who won't necessarily use their RMD income won't have to pay taxes on it; and
2. RMD calculations would have based upon the value of the qualified account as of December 31, 2019, when the market was up between 20–30% from where it currently is now. This means that taxpayers would likely be taking an RMD on account's value that is no longer reflective of their account realistic balance.

401(k) Coronavirus-Related Distributions (“CRDs)

IF you younger than 59½ before 2020, you were not able to take an in-service withdrawal from your employer-based contribution plan (e.g., 401(k)). Now, thanks to Section 2202 of CARES Act, employees are able to withdraw up to $100,000 from their plan – without the 10% penalty – if they have been affected by the virus and the withdrawal is taken in 2020. Employees can also spread the taxes out from that withdrawal over the next three (3) years if they want or need to avoid a large tax bill for 2020. Furthermore, the employee can even repay that money back into their plan within the next three (3) years if they’d like to make their plan whole again.

The $100,000 CARES Hardship Withdrawal (“The One Hundred Grand Safety Plan”)

Many investors and 401(k) owners who are under 59½ and have been affected by the virus may wish to take advantage of the CARES Act “CRD” provision by taking a penalty-free withdrawal in 2020. The 401(k) plan must allow this CARES provision; it is a plan option. 401(k) plans currently allow for hardship, a casualty, and/or disaster withdrawals, so this is a variation on that type of withdrawal.

Those who do take a withdrawal must really only decide what they would like their income tax treatment to be:

1. Take the CRD and pay the income taxes on that withdrawal amount within the subsequent year;
2. Take the CRD and pay the income taxes on that withdrawal amount over the next three (3) subsequent years; or
3. Take the CRD and make a roll-over within sixty (60) days of receiving the money to another tax-qualified retirement vehicle.

1138089-2020