

Hi, Viewers!

Though I'm no longer moderating Tax Talk Today, I still keep up with tax law and on occasion write locally. With all the questions about COVID-19 and the CARES Act I decided to put the following together and would like to share it with you. Hope everyone is doing okay and looking forward to the next Tax Talk Today program!

- Les Witmer



Stimulus Checks and the CARES Act Tax Changes For 2020

I, as many of you know, retired from the IRS in 2001 and for the next 16 years I was the moderator of Tax Talk Today, a monthly webcast out of Washington, DC that was aimed at providing tax practitioners with tax updates and information. To stimulate the economy, the IRS is now poised, as it was in 2001 and again in 2008, to send out over 100 million payments in addition to those it is processing and issuing as part of the regular filing season. I remember doing tax shows on it then and from that remember some of the concerns back then.

Let me put into perspective a little bit about the agency people (including unfortunately many of our elected officials) love to hate. In 2001, the IRS's master file system – the official record of taxpayer accounts which the Government Accounting Office has labelled the oldest databases in the federal government – was then considered “ancient.” Despite moderation plans this software is still around today, only it is 19 years older – and now maybe could be labeled “prehistoric.”

I am certainly a little biased about what the IRS can do well – rally troops to accomplish such add-on tasks with little resources. In fact, the IRS's skill at delivering checks is a curse to the agency, because it means past and present Administrations of both parties and Congress keep turning to it to implement ever more programs and initiatives and new tax laws.

The IRS situation now for this 2020 Economic Stimulus payment is much more dismal than 2008, even disregarding the impact of the coronavirus on the workforce and operations. IRS funding has declined by about 20 percent since 2010. I looked up the FY 2019 IRS budget and found of the \$11.3 billion, Congress only appropriated \$150 million for Business Systems Modernization, the account from which Master File replacement is funded. So, keep your fingers crossed that the program doesn't crash!

And in a time when the IRS is getting calls about filing the 2019 tax returns, guess what people will be calling about? Where's my stimulus check? All creating more calls and inquiries to and overburdened and stressed out workforce affected by the COVID-19.

What about processing—how quickly will it get done? Traditionally there were two bumps in refund returns. People wanting their refunds fast would file early. That has been trending later and later over the years. One reason is a lot of those returns were easy picking for tax fraudsters. To combat that the IRS implemented steps to counter that but it delays the early processing of returns that claim certain things—mostly the Earned Income Tax Credit. That delayed those refunds from going out. Now there is a later refund bump towards the end of the filing season—just when the IRS is tasked with getting out these stimulus checks. So, although top government officials are promising the checks out soon—it will be weeks before they get there. And for those with direct deposit on file they will get it fastest! The good news is for anyone owing the IRS they can delay not only filing to July 15, but also paying!

So, I'm getting questions on the impact of the new law dealing with the coronavirus in addition to the normal filing season questions--mostly from older Americans and retirees who know my tax background. I'm sure you're getting the same type. Tucked in the Coronavirus Aid, Relief, and Economic Security Act, or the CARES Act, are several provisions that cover retirees. Here's what I'm saying.

Q: Will retirees get a stimulus check?

A: It's based on your adjusted gross incomes (AGI) Individuals up to \$75,000 a year will be eligible for the full \$1,200 check. Reduced checks will go out to individuals making up to \$99,000 a year (the payment amount falls by \$5 for every \$100 in income above \$75,000). Married couples are eligible for a \$2,400 check as long as their AGI is under \$150,000 a year. Reduced checks, on a sliding scale, will go out to married couples who earn up to \$198,000. Although the government has not come out with a stimulus check calculator, many of the tax services have and they can be found on line—google “Tax Stimulus Calculator.”

Q: What about if you're on Social Security?

A: People on Social Security are eligible as long as their total income does not exceed the limit. Even if you were not required to file an income tax return. As long as you received an SSA-1099 form (the Social Security benefit statement), the IRS will be able to send a payment via the usual way they get their Social Security payment. Retirees and people on disability are both eligible for the special payment.

Q: What about Required Minimum Distributions (RMDs)?

A: Required minimum distributions (RMDs) are suspended for 2020. Concerned that they would have to take distributions from their retirement accounts with the market now down sharply for the year, many seniors had hoped Congress would suspend their RMDs for 2020. They did. This means that anyone under the new rules—turning 72 and needing to take first time RMDs, and those that are past that and having made arrangements to take RMDs, do not have to this year.

Q: What if someone already took an RMD?

A: If someone already took an RMD or part of the RMD for 2020, which some people might have done as a onetime distribution or even monthly up to now, they're likely out of luck. There is no provision in the bill that allows someone to put back a distribution taken in 2020. The distribution will still be treated as such and therefore taxable. For those who won't need their RMDs and have them set up automatically, now is a good time to call an advisor or service provider and suspend their RMDs for 2020. However, one strategy that can be used is if someone took an RMD from an IRA or 401(k) within the last 60 days, they can do a 60-day rollover to an IRA and not have it treated as a taxable distribution in 2020. If an individual has already withdrawn his or her RMD for 2020 or has withdrawn the first year's 2019 RMD in 2020, the withdrawn amount may be rolled back to (a) the retirement plan (if the plan accepts rollbacks) or (b) an IRA, within 60 days from the date of withdrawal. If the distribution is rolled back to a retirement plan or IRA, the distribution will not be taxable in 2020. However, remember you can only do one rollback a year. This rollback rule does not apply to 2020 RMDs received by a beneficiary such as an inherited IRA.

Q: What if someone already took their RMD and had it going to a charity?

A: If someone uses their RMD as a qualified charitable distribution (QCD), it would not offset any RMDs as taxable income because none are required under the CARES Act. However, it would not be surprising to me if Congress modifies this or the IRS would rule differently later on this.

Q: So, if I gave my money to a charity this year from my RMD it's taxable and it's still not deductible?

A: Good news, some might be deductible. If you take the standard deduction on your 2020 tax return (the one that you'll file next year in 2021), you will be able to claim a brand new "above-the-line" deduction of up to \$300 for cash donations to charity you make this year. Normally, you have to itemize on Schedule A to get a tax break for charitable donations. In this case, though, it's the other way around—if you itemize, you can't take this new deduction but you'd still be able to claim contributions like before. After the last tax reform law, which nearly doubled the standard deduction, the number claiming the itemized deduction for charitable gifts dropped sharply resulting in a decline in charitable donations by individuals. But with the coronavirus crisis upon us, we're going to need help from churches, food pantries, and other charitable organizations more than ever to climb our way back to normal. To encourage more charitable giving in 2020 the recently enacted CARES Act made this change. Maybe for the good for all after 2021, it will remain or even be increased!

Q: Can I take money out of my IRA without penalty?

A: For those that are younger than 59½, you are normally subject to a 10 percent early withdrawal penalty on top of the income tax owed on your withdrawal. The CARES Act waives the 10 percent penalty for IRAs and defined contribution plans for participants experiencing financial hardship brought on by aspects of the coronavirus.

Q: What's if I haven't filed my 2019 tax return yet? Does that affect getting a stimulus check?

A: The IRS will then use your 2018 return. If there is marked difference to your advantage—lower AGI this year or if you need to update direct deposit information file now if you can. (Deadline has been extended to July 15).

Q: Are the stimulus payments taxable?

A: No, they are not taxable.