



CARES Act Relief Sunsets on December 31. How Could That Affect You?

Many provisions of the CARES Act, which provided relief for Americans in the face of the COVID pandemic, are set to expire at the end of 2020, unless extended by Congress.

Millions of Americans who have received CARES Act relief could see it go away in 2021.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed in March 2020, has been a lifeline for millions of Americans hit hard by the economic fallout from the pandemic. Many provisions of the Act, however, are set to expire on December 31, unless they are extended by Congress. That, however, looks increasingly unlikely as no agreement has yet been reached on another stimulus deal, despite ongoing negotiations.

Many will be affected by the sunset of CARES Act relief. Here is a summary of the major provisions and what their expiration might mean for you.

Early Distributions From Retirement Plans

Under the CARES Act, coronavirus-related distributions of up to \$100,000 from a retirement plan or individual retirement account (IRA) made to a qualifying individual are not subject to the 10% additional tax that generally applies to distributions taken before age 59½. That means that cash-strapped participants under that age can potentially tap into their plan account or IRA and avoid the penalty tax. However, if you wait until next year, the 10% penalty will apply, along with ordinary income tax.

Who qualifies? Individuals who are diagnosed with the virus SARS-CoV-2 or with coronavirus disease 2019 (COVID-19) by a test approved by the Centers for Disease Control and Prevention qualify, as do individuals whose spouse or dependent is diagnosed with the virus or disease. Other qualifying individuals include those who experience adverse financial consequences as defined in the Act.

How are coronavirus-related distributions taxed? The taxable amount of a coronavirus-related distribution is included in gross income ratably over three tax years. Alternatively, taxpayers may elect to include the entire taxable amount in income in the year received.

Note that individuals may repay the amount distributed by making one or more contributions at any time during the three-year period following the date of distribution. These repayments would not be subject to income tax.

Retirement Plan Loan Repayments

The CARES Act doubled the retirement plan loan limits to the lesser of \$100,000 or 100% of the participant's vested account balance in the plan. Although the increased loan limits expired in September, those who did borrow from their plan may be able to delay loan repayments due during the period from March 27, 2020, to December 31, 2020 for up to one year. Payments due after December 31, 2020 cannot be delayed.

Required Minimum Distributions (RMDs)

Under the CARES Act, 2020 RMDs from defined contribution retirement plans such as Section 401(k) and 403(b) plans, Section 457(b) plans, and IRAs (and 2019 RMDs that needed to be taken by April 1, 2020) were waived. RMDs for 2021 and beyond may not be delayed.

Unemployment Benefits

Although the enhanced federal unemployment insurance payments of \$600 per week ended in July, some unemployment provisions are still in place until December 31. The Act extended the total weeks of unemployment benefits most people are eligible for to 39 weeks, 13 more weeks than the 26 offered by many states under normal circumstances. These extended benefits will end on December 31, 2020. Self-employed individuals and independent contractors who may have been eligible for state benefits may also see them go away after year end.

Charitable Contributions

For the 2020 tax year, taxpayers who do not itemize their deductions may deduct from gross income up to \$300 of cash contributions to qualified charitable organizations. For 2021 and beyond, taxpayers may only take charitable deductions if they itemize their deductions.

Employer Payments of Student Loans

The Act permits employees to exclude from taxable income student loan repayments made after March 27, 2020, and before January 1, 2021, under an employer's educational assistance program, subject to the overall annual limit of \$5,250 that applies to these programs. After December 31, such repayments must be included in their taxable income.

Other provisions, such as deferred payments on certain student loans, are also set to expire on December 31.

Although it is still possible that Congress may reach agreement on a second stimulus, there is no assurance that any of the provisions under the CARES Act will be extended. So make sure you are aware of the upcoming changes and how they might impact you.

