2020 CARES ACT

FAQ for Individual

On March 27, 2020, in response to the COVID-19 global pandemic, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This historic and sweeping legislation created to help keep workers paid and employed, allowed businesses to remain operational, make necessary health care system enhancements and help stabilize the economy.

During this stressful and uncertain time, LPL Financial is here to help you understand the immediate financial relief and other financial resources available to all Americans through the CARES Act. The following information addresses many common questions that individuals are asking with regard to the federal government's recovery rebate payments, enhanced unemployment compensation benefits available to individuals whose employment has been adversely affected by the COVID-19 virus, student loan payment suspensions, and temporary new distribution rules associated with IRAs and worksite retirement plans, such as a 401(k).

Should you have any immediate worries or concerns, please don't hesitate to reach out to your financial professional at LPL. We are here to support you in any way we can.

Recovery Rebates

(also referred to as "Stimulus Payments")

Q: Who is eligible for a recovery rebate?

All U.S. residents or citizens with adjusted gross income under $75,000 ($112,500 for head of household and $150,000 married), who are not the dependent of another taxpayer and have a work-eligible Social Security Number, are eligible for the full $1,200 ($2,400 for married couples) rebate. They are also eligible for an additional $500 per child. A typical family of four is eligible for a $3,400 recovery rebate.

Q: What about taxpayers with adjusted gross income over $75,000 ($112,500 for head of household and $150,000 married)? Are they eligible to receive any rebate?

The rebate amount is reduced by $5 for each $100 that a taxpayer's income exceeds the phase-out threshold. The amount is completely phased-out for single filers with incomes exceeding $99,000, $146,500 for head of household filers with one child, and $198,000 for joint filers with no children. For a typical family of four, the amount is completely phased out for those with adjusted gross incomes exceeding $218,000.

Q: What if my income was above the threshold in 2019, but I've lost my job due to the coronavirus? Can I still get a rebate check?

If your income in 2019 was in the phase-out range you would still receive a partial rebate based on your 2019 tax return. However, the rebate is actually an advance on a tax credit that you may claim on your 2020 tax return. If your income is lower in 2020 than in 2019, any additional credit you are eligible for will be refunded or reduce your tax liability when you file your 2020 tax return next year.

Q: Who qualifies as a child for purposes of the rebate?

Any child who is a qualifying child for the purposes of the Child Tax Credit is also a qualifying child for the purposes of the recovery rebate. In general, a child is any dependent of a taxpayer under the age of 17.

Q: Do dependents, other than children under 17, qualify a taxpayer for an additional $500 per dependent?

No, the additional $500 per child is limited to children under 17.

Q: Are individuals with little to no income or those on means-tested federal benefits, such as SSI, eligible for a recover rebate?

Yes, there is no qualifying income requirement. Even individuals with $0 of income are eligible for a rebate so long as they are not the dependent of another taxpayer and have a work-eligible SSN.

Q: Are seniors whose only income is from Social Security or a veteran whose only income is a veterans' disability payment eligible?

Yes, as long as they are not the dependent of another taxpayer. The bill also provides IRS with additional tools to locate and provide rebates to low-income seniors who normally do not file a tax return by allowing them to base a rebate on Form SSA-1099, Social Security Benefit Statement or Form RRB-1099, which is the equivalent of the Social Security statement for Railroad Employees. However, seniors are still encouraged to file their 2019 tax return to ensure they receive their recovery rebate as quickly as possible.

Q: Are college students eligible for a recovery rebate?

Only if they are not considered a dependent of their parents. Generally, a full-time college student under the age of 24 is considered a dependent if their parent(s) provide more than half of their support.

Q: What should I do if a deceased relative mistakenly received a stimulus payment?

If a deceased relative has received a stimulus payment, please follow the IRS's guidelines on how you can return it: https://www.irs.gov/coronavirus/economic-impact-payment-information-center#more

Q: I am eligible for a rebate, what do I have to do to receive it?

For the vast majority of Americans, no action on their part will be required to receive a rebate check since the IRS will use a taxpayer's 2019 tax return if filed or their 2018 return if they haven't filed their 2019 return. This includes many individuals with very low income who file a tax return despite not owing any tax in order to take advantage of the refundable Earned Income Tax Credit and Child Tax Credit.

Q: What should I do if I did not file a tax return for 2019 or 2018?

The best way to ensure you receive a recovery rebate is to file a 2019 tax return if you have not already done so. This could be accomplished for free online from home using the IRS Free file program (https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free). The bill also instructs the IRS to engage in a public campaign to alert all individuals of their eligibility for the rebate and how to receive it if they have not filed either a 2019 or 2018 tax return.

Q: If I have a past due debt to a federal or state agency, or owe back taxes, will my rebate be reduced?

No, the bill turns off nearly all administrative offsets that ordinarily may reduce tax refunds for individuals who have past tax debts, or who are behind on other payments to federal or state governments, including student loan payments. The only administrative offset that will be enforced applies to those who have past due child support payments that the states have reported to the Treasury Department.

Unemployment Benefits

Q: Who will be covered by the expanded program?

The CARES Act includes far more workers than are usually eligible for unemployment benefits, including self- employed people and part-time workers. Those who are unemployed, are partly unemployed or cannot work for a wide variety of coronavirus-related reasons will be more likely to receive benefits.

Q: How much will I receive?

It depends on your state. Generally speaking, under the plan, eligible workers will get an extra $600 per week on top of their state benefit.

Q: Are gig workers, freelancers and independent contractors covered?

Yes, self-employed people are eligible for unemployment benefits under the CARES Act. Self-employed workers will also be eligible for the additional $600 weekly benefit provided by the federal government.

Q: What if I'm a part-time worker who lost my job because of a coronavirus reason, but my state doesn't cover part-time workers? Am I still eligible?

Yes. Part-time workers are eligible for benefits, but the benefit amount and how long benefits will last depend on your state. They are also eligible for the additional $600 weekly benefit.

Q: What if I have COVID-19 or need to care for a family member who has it?

If you've received a diagnosis, are experiencing symptoms or are seeking a diagnosis — and you're unemployed, partly unemployed or cannot work as a result — you will be covered. The same thing applies if you must care for a member of your family or household who has received a diagnosis.

Q: What if I've been advised by a health care provider to quarantine myself because of exposure to coronavirus? And what about broader orders to stay home?

People who must self-quarantine are covered. The legislation also says that individuals who are unable to get to work because of a quarantine imposed as a result of the outbreak are eligible.

Q: I was about to start a new job and now can't get there because of an outbreak.

You're eligible for benefits. You will also be covered if you were immediately laid off from a new job and did not have a sufficient work history to qualify for benefits under normal circumstances.

Q: My employer shut down my workplace because of coronavirus. Am I eligible?

Yes. If you are unemployed, partly unemployed or unable to work because your employer closed down, you're covered under the bill.

Q: Whom does the bill leave out?

Workers who are able to work from home, and those receiving paid sick leave or paid family leave are not covered. New entrants to the work force who cannot find jobs are also ineligible.

Q: How long will the payments last?

Many states already provide 26 weeks of benefits, though some states have trimmed that back while others provide a sliding scale tied to unemployment levels. The bill provides all eligible workers with an additional 13 weeks. So participants in states with 26 weeks would be eligible for a total of 39 weeks. The total amount cannot exceed 39 weeks, but it may be shorter in certain states. The extra $600 payment will last for up to four months, covering weeks of unemployment ending July 31.

Q: How long would the broader program last?
Expanded coverage would be available to workers who were newly eligible for unemployment benefits for weeks starting on Jan. 27, 2020, and through Dec. 31, 2020.

Q: I'm already receiving unemployment benefits. Will I receive any help?
Yes. Even if you're already receiving unemployment benefits for reasons unrelated to the coronavirus, your state-level benefits will still be extended by 13 weeks. You will also receive the extra $600 weekly benefit from the federal government.

Q: My unemployment recently ran out — could I sign up again?
Yes. If you've exhausted your benefits, eligible workers can generally reapply. But how much you get and for how long depends on the state where you worked. Everyone gets at least another 13 weeks, along with the extra $600 payment through July 31.

Q: How long will I need to wait for benefits?
States have been incentivized to waive the one-week waiting period, but it's unclear how long it will take to process claims — especially with state offices so strained by a flood of them.

Student Loans

Q: How does the CARES Act affect student loan payments?
Until Sept. 30, there will be automatic payment suspensions for any student loan held by the federal government. It is hard to contact many of the loan servicers right now, so you are advised to check your account online in the coming weeks. Once you are logged in, look for the current amount due. There, you should be able to see if the servicer has reset its billing systems so that you are showing no payment due. Please note that the CARES Act excludes borrowers with private loans, as well as Perkins loans and commercially held Federal Family Education Loans (FFEL) loans. These are typically older loans (these programs no longer exist) but there are still many borrowers who are repaying them and will not receive the temporary benefits. If you're not sure what types of student loans you have, contact your loan servicer to find out. In addition, if it is possible, you should consider continuing to make your student loan payments.

Q: Will my loan servicer charge me interest during the six-month period?
The bill says that interest "shall not accrue" on the loan during the suspension period.

Q: Is wage garnishment that resulted from being behind on my loan payments suspended during this six-month period?
Yes. So is the seizure of tax refunds, the reduction of any other federal benefit payments and other involuntary collection efforts.

Q: Are there changes to the rules if my employer repays some of my student loans?
Yes. Some employers do this as an employee benefit. Between the date the bill is signed and the end of 2020, they can offer up to $5,250 of assistance without that money counting as part of the employee's income. If the employer pays tuition for classes an employee is taking, that money will also count toward the $5,250.

Retirement Accounts

Q: Which retirement account rules are suspended?

The CARES Act suspends RMDs during 2020. This applies to Traditional IRAs, SEP IRAs, and SIMPLE IRAs, as well as 401(k), 403(b) and Governmental 457(b) plans. Furthermore, the relief applies to both retirement account owners, themselves, as well as to beneficiaries taking stretch distributions.

The CARES Act not only eliminates RMDs for 2020, but any RMD that otherwise needed to be taken in 2020. More specifically, individuals who turned 70 ½ in 2019, but did not take their first RMD in 2019 (and thus, would have normally been required to take such a distribution by April 1st, 2020, as well as a second RMD for 2020 by the end of 2020) do not have to take either their 2019 RMD or their 2020 RMD.

Q: Does the CARES Act provide any relief for those retirement plan or IRA participants that have already taken their RMD for 2020?

In April, the IRS extended a number of deadlines for certain actions that are otherwise due to be performed on or after April 1, 2020 and before July 15, 2020, to July 15, 2020. This extension indirectly provides a way for individuals who already took an RMD to put it back into their IRA or plan and eliminate the tax bill. Here's how it works:

Normally, anyone who takes a distribution from their IRA or plan can roll those funds over within 60 days. This IRS extension to July 15, 2020 means that anyone who took an RMD between February 1, 2020 and May 15, 2020 can still put the money back into their IRA or plan.

Unfortunately, if you took an RMD in January, you do not appear to qualify for any relief (based on what is known as of late April 2020).

Please note that this relief does not include relief from the once-per-year IRA rollover rule. Only one IRA-to-IRA or Roth IRA-to-Roth IRA rollover per 365 days (not a calendar year) is permitted. If anyone has done one of these rollovers within the 365 days preceding the date they received their RMD, then they are disqualified from taking advantage of this 60-day extension. This rule only applies to IRA-to-IRA rollovers, and not to company retirement plans. For example, rollovers from company plans to IRAs or vice-versa are not subject to the once-per-year rule.

Neither are Roth conversions.

One final thing to note: Under the CARES Act, 2020 RMDs were also waived for beneficiaries. However, non-spouse beneficiaries don't qualify for this 60- day extension because, under the law, a non-spouse beneficiary cannot do a 60-day rollover.

There is always a chance that the IRS may address providing additional relief on all of these RMD issues and rules at a later date.

Q: What if I have to take money out of my IRA or workplace retirement plan early due to financial hardship?

You can withdraw up to $100,000 this year without the usual 10 percent early withdrawal penalty (under age 59½). You will also be able to spread out any income taxes that you owe over three years from the date you took the distribution. And if you want, you could put the money back into the account before those three years are up, even if the amount is over that particular year's IRS contribution limit.

Please note that these new rules apply only to coronavirus-related withdrawals and may not be available through your employer's workplace retirement plan (although it will be available to any qualified individual who has an IRA). You qualify if you tested positive, a spouse or dependent did or you experienced a variety of other negative economic consequences related to the pandemic. Employers can allow workers to self-certify that they are qualified to pull money from a workplace retirement account.

Q: Can I still borrow from my 401(k) or other workplace retirement plan?

Yes, if loans are offered by your employer. The CARES Act doubles the current retirement plan loan limits to the lesser of $100,000 or 100% of a qualified individual's vested account balance in the plan. This increased loan amount is available for loans made during the 180-day period beginning on the date of enactment. In addition, if you already have a loan and were supposed to finish repaying it before Dec. 31, you get an extra year to pay it off.

Please note that this higher loan limit applies only to coronavirus-related loan requests and may not be available through your employer's plan. You qualify for the higher loan limits if you tested positive, a spouse or dependent did or you experienced a variety of other negative economic consequences related to the pandemic. Employers can allow workers to self-certify that they are qualified to request a higher loan amount from a workplace retirement account.

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