

Taxpayer relief in response to COVID-19

On Friday March 27, 2020, Congress passed the Coronavirus Aid, Relief and Economic Security (CARES) Act, meant to provide federal government support to taxpayers due to the COVID-19 pandemic and resulting economic fallout. Additionally, the Internal Revenue Service (IRS) has announced a sweeping series of steps to assist taxpayers. The following outlines the key provisions of the CARES Act, as well as official rulings from the IRS, meant to provide relief to taxpayers during this unprecedented time.

In a series of notices and guidance, the Department of the Treasury and the Internal Revenue Service have provided relief for taxpayers, postponing the due date for certain federal income tax filings and payments from April 15, 2020 until July 15, 2020.

- The 2019 federal income tax filing and payment deadline for any person with an April 15 due date is automatically extended until July 15, 2020. “Person” includes any type of taxpayer, such as an individual, a trust, an estate, a corporation, or any type of unincorporated business entity.
- Estimated tax payments for 2020 normally due on April 15, 2020, are extended until July 15, 2020.
- A taxpayer can request an automatic extension to file their federal income tax return if they cannot file by the new July 15 deadline. The extension must be requested by July 15, 2020. If a taxpayer properly estimates their 2019 tax liability and files an extension form by July 15, 2020, their tax return will be due on October 15, 2020.
- This extension applies only to federal income tax payments. It does, by itself, apply to state filing and payment deadlines. Several states have announced an extension on filing deadlines. Information on states can be found at: <https://www.taxadmin.org/state-tax-agencies>.
- The deadline for making contributions to a traditional or ROTH IRA for tax year 2019 has been extended to July 15, 2020.
- Employers with an April 15, 2020 deadline have until July 15, 2020, plus extension, to make “employer contributions” to plans (SEP, SIMPLE IRAs, 401(k)s etc.).
- For an affected taxpayer, the due date for filing a United States Gift and Generation-Skipping Transfer Tax Return and making payments of Federal gift and generation-skipping transfer tax due April 15, 2020, is automatically postponed to July 15, 2020.
- IRS Q & A: [Filing and Payment Deadlines Questions and Answers](#)

The CARES Act of 2020, enacted on March 27, 2020, provides: significant public health spending; immediate cash relief for individual citizens, a broad lending program for small businesses, and targeted relief for hard-hit industries. Below are some key provisions designed to help individual taxpayers during this crisis.

Required Minimum Distributions (RMD)

- 2020 RMDs for IRA, 403(b), defined contribution (including 401(k)), and 457 plans are waived.
- Individuals who have taken their 2020 RMD can rollover up to 100% of the RMD if they are otherwise qualified to do so. The rollover must be done within 60-calendar days of the distribution. Keep in mind that each taxpayer is limited to one 60-day rollover in a 12-month period.
- The 2020 RMD for beneficiaries are waived. However, if a non-spouse beneficiary has already taken their 2020 RMD they are ineligible to roll the distribution back to an IRA.
- 2020 is disregarded for beneficiaries subject to the "5-year rule."
- An individual who is 70 ½, or older, can still do a Qualified Charitable Distribution (QCD) from their IRA of up to \$100,000 in 2020. However, since RMDs are waived for 2020, their amount will not offset any future RMDs, except for the fact that their account balance may be lower.
- 2019 RMDs waived for taxpayers who delayed their 2019 RMD and would otherwise need to take it before April 1, 2020.

Taxpayer Recovery Rebate

- Eligible taxpayers will receive a one-time, refundable income tax credit (cash payment) against their 2020 income taxes. Payments will be based on 2019 or 2018 tax returns, whichever is most recently filed. While this may reduce or eliminate payments to taxpayers whose 2018/2019 income is over the thresholds (see below), should 2020 income result in them qualifying for the credit (lower income, within the threshold), they will receive it at that time.
- The amount each individual will receive depends in part, on their filing status - \$1,200 for individuals and \$2,400 for joint filers. Taxpayers with children will receive \$500 per child under age 17. These amounts can be reduced/eliminated if income thresholds are not met.
- Taxpayers will receive full payment if adjusted gross income (AGI) is **up to but not exceeding**: (1) \$150,00 for joint filers; (2) \$112,500 for heads of household; and (3) \$75,000 for all other types of filers.
- For filers with income above these amounts, the payment amount begins to phase out by 5%, or \$50 for each \$1000, above the AGI thresholds. Single filers making more than \$99,000, and joint filers making more than \$198,000, with no children, are not eligible for the payment.
- The IRS announced on March 30, 2020, that distribution should begin in the next three weeks. More information can be found on the IRS website: www.irs.gov/newsroom/economic-impact-payments-what-you-need-to-know

Unemployment Compensation Provisions

- Individuals receiving unemployment benefits will receive an additional \$600 per week in benefit payments from the date of the law's enactment through July 31, 2020.
- Unemployment benefits will be available immediately, without the 'normal' one-week waiting period.
- The benefit period to receive unemployment compensation is extended by an additional 13 weeks.
- Self-employed individuals (generally ineligible for unemployment compensation) and other individuals who are ineligible for 'regular' unemployment, extended unemployment or pandemic unemployment compensation, or run out of such benefits, will be eligible for up to 39 weeks of benefits.

Distributions from Retirement Accounts

- A penalty free Coronavirus-Related Distribution (CRD) of up to \$100,000, in the aggregate, may be made from all retirement plans in which an individual participates (IRA, 401(k), 403(b), or governmental 457(b)).
- A Coronavirus-Related Distribution is a distribution made in 2020 to an individual:
 - diagnosed with COVID-19 or whose spouse or dependent is diagnosed with COVID-19;
 - who experiences adverse financial consequences stemming from COVID-19 as a result of:
 - being laid off, quarantined or furloughed,
 - reduced work hours,
 - unable to work due to lack of child care,
 - reduction of hours or closing of a business owned or operated by the participant, or
 - other factors determined by the Treasury Department.
- Distributions are taxable but may be included in individuals' taxable income over a three-year period beginning in 2020. The mandatory tax withholding on the distribution will not apply.
- To avoid taxation, the amount distributed can be re-paid as a rollover to an eligible retirement account within three years of taking the distribution.

Loans from Qualified Plans

- For eligible individuals (see criteria above for CRDs), there is an increase in loan amounts from \$50,000 or 50% of the participant's vested balance to \$100,000 or 100% of the vested balance. This applies to loans taken within the 180-day period beginning on the date of enactment (3/27/20).
- A one-year suspension on loan repayments for any loan taken on the date of enactment through December 31, 2020. Accrued interest on the loan will be adjusted for the period that payments were delayed.
- The one-year delay shall not be counted in the five-year term of the loan essentially turning a five-year loan into a six-year repayment term.

Federal Student Loans

- Required payments, of principal and interest, on federal student loans are suspended through September 30, 2020. In addition, no interest will accrue on federal student loans during this period. Credit reporting agencies will see suspended payments as regularly scheduled payments.
- In 2020, an employer may contribute up to \$5,250 to an employee's student loans; that payment can be excluded from the employee's income. The \$5,250 cap also includes any other qualified educational assistance (such as tuition, books or fees) that may already be provided to an employee.
- Debt collection is suspended through September 30, 2020, if a borrower has defaulted on student loans.

Charitable Contribution Changes under the CARES Act

- Taxpayers may take an above-the-line deduction for up to \$300 of Qualified Charitable Contributions starting in tax year 2020. In order to claim the deduction, a taxpayer cannot itemize their deductions on their federal tax return. Therefore, this is only available if a taxpayer takes the standard deduction. Qualified charitable contributions must be made in cash and cannot be made to a donor-advised fund or a supporting organization as defined in IRC Section 509(a)(3).
- The charitable deduction on cash contributions to qualified charities is temporarily increased to 100% of a taxpayer's AGI in 2020. This potentially allows an individual to completely eliminate their 2020 tax liability via cash contributions to a qualified charity. If the donor contributes MORE than their AGI for 2020, they would be able to carry the excess amount forward for up to five years. Gifts to donor-advised funds or supporting organizations do not qualify.

These are unprecedented times, your financial professional will work with you and/or your tax and legal advisors to determine how these changes may affect you and any actions you should consider

The foregoing summary of tax impacts resulting from the CARES Act is not exhaustive. Rather, the information is a general discussion of the relevant federal tax laws provided to promote ideas that may benefit a taxpayer. It is not intended for, nor can it be used by for the purpose of avoiding federal tax penalties. Special rules may apply to situations not discussed here. Due to the complexity of the Act, you should discuss any issues with your tax advisor.

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Rev 4-2020 DOFU 4-2020
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