The CARES Act Offers Tax Planning Opportunities for 2020

One of the most significant income tax-related provisions of the CARES Act is that it permits taxpayers to suspend required minimum distributions (RMD's) from IRAs and qualified retirement plans for 2020. This provision covers RMDs from inherited IRAs as well as taxpayers who obtained age 70 ½ in 2019 and took advantage of the opportunity to defer their first RMD to April 1, 2020. Taxpayers who took a required distribution in 2020, prior to the signing of the Act, may wish to determine whether the distribution would qualify for 60-day rollover treatment, which could allow them to return the funds to the IRA or retirement plan with no income tax liability. If the distribution qualifies as a Coronavirus-related distribution (see below), it is also possible the taxpayer could repay it with no tax liability even if the 60-day rollover option is unavailable.

The Act also includes additional provisions related to retirement plan distributions for those affected by Coronavirus. Qualifying individuals include, among others, an individual: who is diagnosed with the virus, or whose spouse or dependent is diagnosed with the virus; or who experiences adverse financial consequences as a result of being quarantined, being furloughed or laid off, or having work hours reduced; or who is unable to work due to lack of child care; or who experiences reduced hours if a business owner. These individuals may take a distribution of up to $100,000 from an IRA or other eligible retirement plan and elect to report the income over three years. The 10% penalty tax on such distributions by taxpayers under the age of 59 ½ will be waived. Any amount the taxpayer repays to the IRA or eligible plan within three years will be treated as a rollover and not subject to income tax.

Pursuant to the Act, donors who itemize their deductions may make "qualified contributions" of cash in 2020 to public charities and certain private foundations and deduct up to 100% of their adjusted gross income (AGI) rather than adhering to the current cap of 60% of AGI. Nonqualified contributions, including donations to supporting organizations, donor advised funds and most private foundations, as well as gifts of securities and other non-cash assets, remain subject to the current limitations and reduce the amount of qualified contributions permissible.

Similarly, in 2020, the Act allows non-itemizing taxpayers an "above-the-line" deduction of up to $300 for cash contributions made to qualified charitable organizations. As above, qualified organizations include public charities and certain private foundations, and exclude supporting organizations, donor advised funds and most private foundations.

Many of these provisions are still subject to interpretation and guidance from the IRS is awaited. Please consult with your tax advisor before implementing any of the strategies discussed above.

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