

CARES Act

REVISED JULY 1, 2020

The **Coronavirus, Aid, Relief and Economic Security (CARES) Act** was signed into law March 27, 2020 as part of a massive stimulus package in response to the Coronavirus public health and economic emergency. Following is a summary of the initial implications from the law as well as other related legislation.

<p>Tax Filing and Contribution Deadline Extended</p>	<p>The deadline to file income taxes and make 2019 contributions to IRAs and Health Savings Accounts changed from April 15, 2020 to July 15, 2020.</p>
<p>Economic Impact Payments</p>	<p>U.S. residents with adjusted gross income up to \$75,000 for individuals and up to \$150,000 for married couples filing joint returns will receive the full one-time payment of \$1,200 per person. This amount is reduced for income above those limits and is phased out at \$99,000 for individuals and \$198,000 for married couples filing joint returns with no children. There is also an additional payment of \$500 per child under the age of 17.</p> <p>The distribution of economic impact payments will begin in mid-April and will be distributed automatically, with no action required for most people. Social Security beneficiaries who are not typically required to file tax returns will not need to file to receive a payment. Instead, payments will be automatically deposited into their bank accounts.</p>
<p>Waiver of RMDs for 2020</p>	<p>The CARES Act waives required minimum distributions (RMDs) for the 2020 calendar year. In addition, the RMD requirement for individuals who turned 70½ in 2019 who elected to delay taking their first required distribution to 2020 is also waived. The waiver also applies to inherited IRAs and company sponsored plans where the beneficiary elected life-expectancy distributions or the “stretch” option.</p> <p>Beneficiaries who are subject to the 5-year distribution rule will now have an additional year to take inherited IRA or retirement plan proceeds; thus the 5-year rule becomes a 6-year rule for retirement accounts inherited in years 2015-2020.</p>
<p>Rollovers of RMDs Already Taken</p>	<p>RMDs already taken in 2020 may be eligible for a rollover into an IRA or company-sponsored plan. IRS Notice 2020-51, released on June 23, 2020, waives the requirement to return RMDs from an IRA or retirement plan within 60 days; however, the rollover must be completed by August 31, 2020. Notice 2020-51 also states that the rollover/RMD repayment is not subject to the one rollover per 12-month period limitation. Additionally, the restriction prohibiting rollovers for inherited IRAs has been waived through August 31, 2020.</p>

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<p>New Penalty-Free Coronavirus-Related Distribution</p>	<p>Prior to December 31, 2020, IRA owners and eligible plan participants under age 59½ may take a Coronavirus-related distribution up to \$100,000 with no 10% premature distribution penalty. Distributions under this provision are still subject to income tax, but the tax may be spread over three years. The amount withdrawn (not to exceed \$100,000) may be repaid over the three-year period. Eligible distributions from a company-sponsored retirement plan will not be subject to the 20% mandatory tax withholding, and these distributions are not eligible for a rollover. Individuals who are over age 59½ (not subject to the 10% penalty) may also take advantage of the three-year income tax deferral and payback.</p> <p>To be eligible for penalty-free distributions, the individual, or his or her spouse or dependent, must be diagnosed with COVID-19 by a CDC approved test, or have experienced adverse financial consequences as a result of COVID-19 (e.g. furloughed, laid-off, reduced work hours, unable to work due to a lack of childcare, closing or reducing hours of a business owned or operated by the individual, or other factors to be determined by the Secretary of the Treasury).</p>
<p>New Company-Sponsored Plan Loan Provision (401k, 403b, 457b, PSP)</p>	<p>The maximum amount of a plan loan for affected individuals is increased from \$50,000 to the lesser of \$100,000 or 100% of the vested account balance. This relief applies to loans taken by September 23, 2020 (180-day period from March 27, 2020). Participants can request to have their existing loan repayment suspended for one year, but interest continues to accrue during the period. The request must be made by December 31, 2020.</p> <p>Note: This is an optional plan provision if the plan allows for loans.</p>
<p>Unemployment Benefits</p>	<p>Eligible workers who are collecting certain unemployment insurance benefits, including regular unemployment compensation, will receive an additional \$600 in federal benefits per week for weeks of unemployment ending on or before July 31, 2020.</p> <p>Those workers who have exhausted benefits under regular unemployment compensation or other programs will receive up to 13 weeks of additional benefits. States must offer flexibility in meeting eligibility requirements related to “actively seeking work” if an applicant’s ability to do so is impacted by COVID-19.</p>
<p>Paid Sick Leave and Family Leave</p>	<p>Covered employees will be eligible for:</p> <ul style="list-style-type: none"> • Two weeks of paid sick leave at regular rate if employee can’t work because they are quarantined or experiencing symptoms of COVID-19 and seeking a medical diagnosis. • Two weeks of paid sick leave at 2/3 regular rate if employee is unable to work because of caring for someone subject to quarantine or caring for a child where childcare is unavailable. • Up to an additional 10 weeks of paid expanded family and medical leave at 2/3 regular rate if unable to work because their child’s school or daycare is closed due to reasons of COVID-19. <p>The paid sick leave and expanded family and medical leave provisions apply to certain public employers, and private employers with fewer than 500 employees. Some provisions may not apply to certain employers with fewer than 50 employees.</p>
<p>Health Care Expenses Related to COVID-19</p>	<p>Group and individual health care plans must cover testing for COVID-19 without any cost sharing such as co-insurance, co-pays, or meeting a deductible.</p>

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Mortgage and Rent Relief	<p>For borrowers with federally backed loans, if they can't pay their mortgage on time because they are affected by the COVID-19 national emergency, they may request a forbearance. The initial forbearance period may be up to 6 months. If needed, an additional forbearance period of up to 6 months may be requested by the borrower. No late charges, fees, or penalties may apply when on a forbearance plan.</p> <p>For federally backed mortgages, lenders must halt any current foreclosure and may not start a new foreclosure for 60 days starting on March 18, 2020.</p> <p>Renters cannot be evicted for not paying their rent if their landlord has a federally backed mortgage. No fees or penalties may be charged for nonpayment. This applies for 120 days after March 27, 2020.</p>
Student Loans	<p>Federal student loan payments are waived and loan interest rates are set to 0% until September 30, 2020. Federal student loan borrowers are automatically placed in an administrative forbearance, which allows borrowers to temporarily stop making monthly loan payments. This suspension of payments will last until September 30, 2020, but borrowers may continue to make payments if desired. The payment waiver and 0% interest rate apply to the following federal student loans owned by the Department of Education:</p> <ul style="list-style-type: none">• Defaulted and non-defaulted Direct Loans• Defaulted and non-defaulted FFEL Program loans• Federal Perkins Loans
Charitable Gifts	<p>Taxpayers who do not itemize may deduct charitable donations up to \$300 for 2020. For taxpayers who do itemize their deductions, the 60% of adjusted gross income limit for charitable giving is suspended for 2020. For corporations, the limit on charitable contributions is increased from 10% to 25% of taxable income for 2020.</p>
Tax Credits for the Self-employed	<p>People who are self-employed may be eligible for a refundable tax credit for sick leave and family leave of up to the lesser of \$200 a day or 2/3 of their average daily pay (up to 10 days).</p> <p>Self-employed individuals may also be eligible for a refundable tax credit for emergency paid sick leave for quarantine or testing for COVID-19. The credit is the lesser of \$511 a day or 100% of average daily pay, up to 10 days.</p>

There are many sweeping legislative changes included in the CARES Act. These are just a few highlights. Davenport will continue to keep you apprised of any new developments. Please contact your Financial Advisor with questions on how any of these provisions may apply to you.

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