Coronavirus Aid, Relief, and Economic Security (CARES) Act

In March 2020, U.S. lawmakers agreed on the passage of a $2 trillion stimulus bill called the CARES (Coronavirus Aid, Relief, and Economic Security) Act to blunt the impact of an economic downturn set in motion by the global coronavirus pandemic.

KEY TAKEAWAYS

- $367 billion loan and grant program for small businesses
- Expansion of unemployment benefits to include people furloughed, gig workers, and freelancers, with benefits increased by $600 per week for a period of four months
- Direct payments to families of $1,200 per adult and $500 per child for households making up to $75,000
- Over $130 billion to hospitals, health care systems, and providers
- $500 billion fund for loans to corporate America (which Democrats called a slush fund when the Treasury was solely in charge) overseen by an inspector general and a congressional panel, with every loan document made public
- Cash grants of $25 billion for airlines (in addition to loans), $4 billion for air cargo carriers, $3 billion for airline contractors (caterers, etc.) for payroll support
- Ban on stock buybacks for large companies receiving government loans during the term of their assistance plus one year
- $150 billion to state and local governments
- Borrowing From Retirement Plans: The plan, including recent guidance from the IRS, allows people to take special disbursements and loans from tax-advantaged retirement funds of up to $100,000 without facing a tax penalty. It waives the required minimum distribution (RMD) rules for 401(k) plans and individual retirement accounts (IRAs) and the 10% penalty on early withdrawals up to $100,000 from 401(k)s. Account holders would be able to repay the distributions over the next three years and be allowed to make extra contributions for this purpose.

Several provisions within the CARES Act have already expired. For example, at the end of July, Federal Pandemic Unemployment Compensation providing $600 per week of additional unemployment insurance (UI) benefits expired. On 12/31/2020, a larger set of provisions is also set to expire, which is playing a role in the negotiations for a second round of relief.

Individual provisions that are set to expire on December 31 include:

- Many of the remaining UI provisions, including Pandemic Unemployment Assistance (PUA), allowing gig economy and contract workers to access UI, and the extension of UI benefits for an additional 13 weeks. Additionally, the one-week waiting period that is often required before obtaining UI compensation was waived for residents of states that opted in, which will also expire at the end of the year.

- The 10 percent early withdrawal penalty waiver on retirement account distributions of up to $100,000 for individuals needing supplementary income from retirement accounts. Additionally, required minimum distribution (RMD) rules will be reinstated for 2021. Taxpayers will be permitted to repay qualified early distributions back into retirement accounts over the next two years.
- The $300 above-the-line charitable deduction, which allows taxpayers taking the standard deduction to also deduct up to $300 in charitable contributions from adjusted gross income in 2020.

Business provisions that will also be expiring on December 31 include:

- The Employee Retention Tax Credit (ERTC), which provided a refundable payroll tax credit of up to 50 percent on wages paid up to $10,000 to qualifying employers, which aimed to keep workers on payroll during the economic downturn.
- The loosened net interest tax deduction limitation, which went from a limit of 30 percent of earnings before interest, tax, depreciation, and amortization (EBITDA) up to 50 percent for this tax year.
- Delayed employer-side Social Security payroll tax payments. Firms electing to delay these payments in 2020 will have to repay the tax over the next two years, with half due on December 31, 2021 and the other half due on December 31, 2022.
- Net operating loss (NOL) carrybacks for firms with losses during the economic crisis this year (also applying for the 2018 and 2019 tax years). Similarly, the limitation for taking NOL deductions to 80 percent of taxable income will be reinstated in 2021.
- Many suspended business taxes, including the alcohol excise tax on alcohol used as an input for producing hand sanitizer and the suspended aviation excise taxes