

CFP BOARD

CERTIFIED FINANCIAL PLANNER BOARD OF STANDARDS, INC.

CFP BOARD KEY ELEMENTS CARES ACT 2020

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The goal of this publication is to outline the temporary provisions of the CARES Act 2020. The document addresses elements of increased retirement liquidity, tax relief, and business relief that result from temporary changes in regulation.

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27th, 2020 to provide fast and direct economic assistance for American workers and families, small businesses, and preserve jobs for American industries. Unlike guidance provided by CFP Board for the Tax Cuts and Jobs Act 2017 and the SECURE Act 2019, the provisions of the CARES Act are either temporary or will expire before the November 2020 administration of the CFP® exam. Some provisions like the Paycheck Protection Program continue to evolve at a pace that is beyond the scope of this guidance.

CFP® Board focused primarily on retirement liquidity provisions that addressed the expansion of retirement loan limitations, as well as the penalty exclusion, extended repayment window for rollovers, and income tax withholding waiver of early distributions from 401(k) s and IRAs. CFP Board also considered business related provisions that include the Paycheck Protection Program, disaster relief loans, debt relief, and tax provisions designed to improve cash flow for businesses.

Other planning highlights that are not covered in this document that are major provisions of the CARES Act include Federal stimulus checks to individuals & families, temporary delay on federal student loan payments, and enhanced unemployment benefits. These areas do have planning applications, however, they have less impact on planning than the changes outlined in this document.

CFP Board outlined the following provisions to ensure the test content for the November 2020 exam will reflect the temporary changes related to the CARES Act.

RETIREMENT LIQUIDITY

1. TEMPORARY WAIVER OF RMDs

The CARES Act puts in place a waiver for Required Minimum Distributions in 2020. Taxpayers who have already taken RMDs for 2020 have the option of returning the distributions.

2. TAX FAVORED CORONA VIRUS RELATED DISTRIBUTIONS

10% penalty on early 401K and IRA distributions waived for coronavirus-related distributions.

The CARES Act provisions waive the 10% penalty on early distributions from 401(k)s and IRAs for coronavirus-related distributions made at any time during 2020.

Federal income tax on distribution payable in 3-year window.

Regulations permit Individuals to report the taxable distribution ratably over a 3-year period unless the recipient elects otherwise.

Mandatory 20% income tax withholding waived for COVID related distribution.

COVID related distributions are exempt from the 20 percent mandatory withholding that applies to certain retirement plan distributions.

3. TEMPORARY EXPANSION OF RETIREMENT LOAN LIMITATIONS

The CARES Act doubles the current retirement plan loan limits for qualified individuals. No income tax is owed on the amount borrowed if it is paid back within five years.

4. DUE DATES FOR IRA PLAN CONTRIBUTIONS EXTENDED

Separate and apart from the CARES Act, the IRS extended the 2019 traditional/Roth IRA and HSA contribution deadline to July 15th from April 15th.

*Note: This key element is not part of the CARES Act. The IRS extended due dates for IRA contributions as a result of the tax filing deadline extension in the CARES Act.

TAX RELIEF

5. NEW CHARITABLE CONTRIBUTION DEDUCTION FOR CALCULATING AGI FOR CHARITABLE CONTRIBUTIONS - 60% AGI LIMIT SUSPENDED

The CARES Act provides a new “above the line” charitable contribution deduction of up to \$300 to individuals who do not itemize their deductions

6. TAX FILING DEADLINE EXTENSION

The CARES Act changes the federal tax filing and payment deadline from April 15th to July 15th. Tax payers have an additional three months to pay taxes.

BUSINESS RELIEF

7. PAYCHECK PROTECTION PROGRAM FOR SMALL BUSINESSES

The Paycheck Protection Program provides small businesses with funds to pay up to 8 weeks of payroll costs including benefits. Funds can also be used to pay interest on mortgages, rent, and utilities.

More legislative or administrative clarification is required before this will be tested on the CFP® Exam.

8. SMALL BUSINESS DISASTER RELIEF LOANS (EIDL) THROUGH SMALL BUSINESS ADMINISTRATION

The small business Economic Injury Disaster Loan (EIDL) program is designed to address the temporary loss of revenue due to the Coronavirus (COVID-19) pandemic. The program provides economic relief by allowing small business owners to apply for an Economic Injury Disaster Loan advance for up to \$10,000. The loan advance will not have to be repaid.

9. SMALL BUSINESS DEBT RELIEF

SBA provides coronavirus debt relief through debt-payment assistance on current 7(a), 504, and Microloans. The emergency measure helps small businesses maintain solvency and operations by helping them finance normal SBA loans. The provisions are not available for Payment Protection Program loans or Economic Injury Disaster loans.

10. EMPLOYEE RETENTION TAX CREDIT

The CARES Act provides a refundable payroll tax credit for 50% of wages paid by certain employers to employees.

11. DELAY OF PAYMENT - PAYROLL TAXES

Employers and self-employed individuals are able to improve cash flow by deferring payment of social security tax into future years.

12. EXPANSION OF NET OPERATING LOSS AND RELATED CARRYBACK RULES

Net Operating Losses rules are modified to improve cash flow for businesses. The change will allow monetization of current and prior NOL's that previously were limited. NOL's may create refunds of prior year income taxes that previously could only offset future taxable income.

13. INCREASE IN LIMIT OF BUSINESS INTEREST EXPENSE

The change will allow highly leveraged taxpayers to increase tax deductions created from interest expense thereby increasing cash flow which may allow reductions to borrowings and/or increased savings via tax-deferred or non-tax advantaged plans.

14. CHARITABLE DEDUCTION LIMITATION INCREASE 10% TO 25%

The CARES Act increases the limitations on deductions for charitable contributions for corporations who make cash contributions in 2020 from 10% of taxable income to 25% of taxable income.