Covid-19: Meeting Immediate Financial Needs

The Covid-19 pandemic currently sweeping the world has left many Americans struggling to make ends meet. While the federal government works to create, and then implement, a longer-term relief package, many immediate financial needs can be met from two primary sources: (1) personal financial resources, and (2) existing government relief programs.

Personal Financial Resources

Potentially, there are a number of personal financial resources that might be used[1]:

- Personal savings: Some individuals will have personal savings (an emergency fund) that will allow them to survive financially for a period of time.
- Credit cards and existing personal lines of credit: Those with credit cards and other existing lines of credit (a home-equity loan, for example), may be able access these resources to pay bills. Un-employed borrowers will likely find it difficult or impossible to establish new borrowing arrangements.
- Cash value life insurance: Certain types of life insurance policies develop "cash values" which the policy owner can access through withdrawals (a partial or complete policy surrender) or policy loans.[2]
- Deferred annuities: Many deferred annuities allow an owner, prior to annuitization, to withdraw all of the funds in the annuity (complete surrender), although a surrender charge may apply. Partial withdrawals may also be allowed, sometimes without a surrender charge.[3]
- Withdrawals from retirement plans: Some individuals may be able to withdraw funds from retirement plans such as IRAs or 401(k)s. With the recent, significant market declines, this may not be the best time to sell retirement assets. For those under age 59½, there may also be an additional 10% federal penalty tax, unless an exception applies.

[1] Some of the options discussed here have federal income tax implications. State or local income tax law may vary.

[2] Policy withdrawals will reduce the death benefit available under a policy. If an insured dies with a policy loan outstanding, the policy's death benefit is reduced by the amount of the loan balance. Excess use of withdrawals and policy loans can result in a policy lapsing; such a lapse can result in unexpected, negative income tax consequences.

[3] Funds withdrawn from an annuity prior to annuitization are considered to be made from interest or other growth, taxable as ordinary income. If the annuity owner is under age 59½ at the time of the withdrawal, a 10% federal tax penalty may apply to the earnings, unless an exception applies. Withdrawals from the owner's initial investment are received tax-free.

Personal Financial Resources (continued)

- Existing disability insurance: For those unable to work because of Covid-19, an existing disability insurance policy, either a group or an individual policy, can provide at least a partial replacement for lost income.
- Ask for forbearance: Recognizing the nature of the current crisis, a landlord or other creditor may be willing to temporarily forgo or suspend rent or other debt repayments. It doesn't hurt to ask.

Existing Government Relief Programs

There are a number of existing government relief programs, usually administered by state or local governments, which may come into play. Note that the benefits available, the requirements needed to qualify, and the benefit amounts payable will vary from locality to locality.

- Unemployment insurance: Individuals who have lost a job or had hours reduced because of COVID-19 may be entitled to file a claim for unemployment insurance. This could also include a parent forced to stay home to care for dependent children because of a school closure.
- Disability Insurance: A worker who is unable to work because of being ill or due to a COVID-19 quarantine may be entitled to file a disability insurance claim.
- Paid family leave: An individual who is unable to work because he or she must provide care for a medically ill or quarantined family member because of COVID-19 may be able to claim paid family leave.

Seek Professional Guidance

A panicked response to the current crisis may create unforeseen problems which will last long into the future. The advice and guidance of appropriate financial, legal, and tax advisors is strongly recommended.

COVID-19 – Families First Coronavirus Response Act

The Families First Coronavirus Response Act (H.R. 6201) was signed into law by President Trump on March 18, 2020. The second in a series of federal legislative efforts to combat the COVID-19 health pandemic, the Act provides supplemental funding for a number of critical programs, as well as requiring free COVID-19 testing. In an effort to partially offset the economic impact of the crisis, the Act also contains a requirement for certain employers to provide paid sick and family leave for employees, and includes tax credits to offset the cost of required sick pay and family leave.[1]

Major Elements of the Bill

The bill contains a number of divisions, covering a wide range of topics:

- Supplemental appropriations - emergency spending: The bill includes supplemental appropriations for multiple federal agencies:

    1. To continue funding programs such as the Supplemental Nutrition Assistance Program (SNAP), the Emergency Food Assistance Program (EFAP), and nutrition programs that assist the elderly.
    2. To fund expanded COVID-19 diagnostic testing and services in various departments of the federal government.

- Nutrition waivers: This section of the Act allows the Department of Agriculture to grant waivers of certain requirements for the SNAP and National School Lunch Programs, to ensure that these programs continue to provide needed nutrition.

- Emergency Unemployment Insurance Stabilization: This portion of the Act provides emergency funding for states for activities related to processing and paying unemployment insurance (UI) benefits; certain requirements to qualify for these funds apply. Further, the Act suspends the accrual of interest through December 31, 2020, on federal payments made to states for assistance with unemployment compensation.

[1] The discussions here concern federal law; state or local law may differ.

The Act also increases to 100% the federal share of payments to states for extended and regular unemployment compensation through December 31, 2020.

- Emergency Family and Medical Leave: Requires certain employers (generally, those with less than 500 employees)[1] to provide up to 12 weeks of Emergency Family Medical Leave to eligible employees to care for the employee's child. This may be because the child's school or place of care has been closed due to a public health emergency. Employers are not required to pay employees for the first 10 days of such leave; an employee may use accrued paid leave during such time. After the first 10 days, employers must pay not less than two-thirds of an employee's regular pay for the number of hours the employee normally works. The maximum amount of compensation for such leave is $200 per day and $10,000 in aggregate. Special rules apply to part-time employees. Employers are entitled to receive a 100% refundable payroll tax credit for the wages paid.

- Payroll credit for paid emergency family and medical leave: The Act provides a 100% payroll tax credit for qualified family leave wages paid by an employer for each calendar quarter. The amount of qualified family leave wages that may be considered for each employee is limited to $200 per day and $10,000 for all quarters. An equivalent credit is allowed to a self-employed individual.

- Emergency Paid Sick Leave: Requires an employer (generally, those with less than 500 employees)[1] to provide paid sick time to employees unable to work due to the effects of COVID-19. Full-time employees are entitled to 80 hours of paid sick time if the employee:

    1. Is subject to a governmental quarantine or isolation order.
    2. Has been advised by a health-care provider to self-quarantine.
    3. Is experiencing symptoms of COVID-19, and is seeking a diagnosis.
    4. Is caring for an individual who is subject to an order described in (1) or who has been advised to self-quarantine.
    5. Is caring for the employee's child because the child's school or child-care provider is closed, or

[1] Also applicable to self-employed individuals.

6. Is experiencing a substantially similar circumstance related to COVID-19 as specified by the Department of Health and Human Services in consultation with the Department of Labor.

- Emergency Paid Sick Leave (continued): Paid sick time under this section may be used before other paid leave that may be available to an employee. Part-time employees are entitled to paid sick time for the average number of hours the part-time employee works during an average two-week period. Employers must pay the regular rate of pay up to:
  - $511 per day ($5,110 in aggregate) for paid sick time used by an employee who experiences symptoms of COVID-19 or is required or advised to self-quarantine; or
  - $200 per day ($2,000 in aggregate) for paid sick time used by an employee to care for the employee's child or other impacted person.
    - Employers are entitled to receive a 100% refundable payroll tax credit for the wages paid.
- Payroll credit for emergency paid sick leave: The Act provides a 100% payroll tax credit for qualified sick leave wages paid by an employer for each calendar quarter. The amount of qualified sick leave wages that may be considered for each employee varies, depending on the circumstances under which the wages were paid:
  - $511 per day ($5,110 in aggregate) for paid sick time used by an employee who received paid sick leave because of situations 1, 2, or 3 (see above); or
  - $200 per day ($2,000 in aggregate) for paid sick time used by an employee who received paid sick leave because of situations 4, 5, or 6 (see above).
    - An equivalent credit is allowed to a self-employed individual.
- Health provisions: The Health Provisions portion of the Act requires private health insurance plans to cover testing for COVID-19 without imposing cost-sharing such as deductibles, coinsurance, or copayments for the duration of the public health emergency.[1] Similar requirements apply to classic Medicare, Medicare Advantage

[1] Declared by President Trump on January 31, 2020.

plans, the Children's Health Insurance Program, the Department of Defense (TRICARE), the Veteran's Administration, and programs for Native Americans who receive health services through the Indian Health Service.

Online Resources

Online resources that may be helpful include:

- Internal Revenue Service, at: https://www.irs.gov/coronavirus
- U.S. Department of Labor, at: https://www.dol.gov/coronavirus

Seek Professional Guidance

The foregoing is a highly simplified overview of some of the more notable provisions of the Families First Coronavirus Response Act. To receive maximum benefit from the new legislation, the advice and guidance of trained income tax, legal, and human resource professionals is highly recommended.

COVID-19 – The Coronavirus Aid, Relief, and Economic Security (CARES) Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law by President Trump on March 27, 2020. Covering some $2.2 trillion in expenditures, the CARE Act is, to date, the largest single piece of legislation every passed in the U.S. The Act provides resources to both combat the Coronavirus pandemic as well as to support the U.S. economy.

CARE Act Provisions Benefiting Business

A number of provisions in the CARE Act are designed to directly aid American businesses:

- Paycheck Protection Loan Program (PPP): Operated through the Small Business Administration, the PPP will provide up to $349 billion in potentially forgivable loans to small (generally, less than 500 employees) businesses to pay their employees during the COVID-19 crisis. Proceeds from the loans may be used for payroll costs, interest on mortgage obligations, rent, and utilities. Loans may be up to two months of average monthly payroll costs, plus an additional 25% of that amount, with no more than $100,000 (annualized) per employee, subject to a $10 million cap. Loan forgiveness will not be included in taxable income. The forgiven amount will be reduced if there is a decrease in full-time employee headcount, or if salaries or wages are decreased beyond certain limits.[1]

- Employee Retention Tax Credit: Generally allows an employer a payroll tax credit of 50% of "qualified" wages for any calendar quarter in which the employer (1) had to fully or partially suspend operations under government orders due to COVID-19, or (2) had a decline of at least 50% in gross receipts compared with the same quarter in the prior year. Maximum total wages for any single employee are capped at $10,000. The credit may be taken immediately against the employer portion of payroll taxes, with any excess treated as an overpayment to be promptly refunded by the IRS.[2]

[1] A business with a Paycheck Protection Program (PPP) loan is not eligible for the Employee Retention Tax Credit. A business that has indebtedness forgiven under the PPP program may is not entitled to defer payment of the employer's payroll obligations.

[2] The credit is not available to a business with a Paycheck Protection Program loan.

- Deferring payment of employer's payroll taxes: Allows an employer (including self-employed individuals) to defer payment of the employer's portion of payroll taxes for the period 03/27/20 through 12/31/20. 50% of the taxes due must be paid by 12/31/2021 with any remaining balance due by 12/31/2022.[1]

- Tax provisions benefiting business: A number of temporary business tax breaks were included in the bill:

    - A relaxation of the rules regarding the deduction of Net Operating Losses NOLs), with a five-year carryback for losses in 2018-2020.

    - Increased refundability of the credit for prior year corporate minimum tax liability.

    - An Increase in the allowable deduction for business interest.

- $500 billion distressed business fund: A significant portion of the funds authorized by the CARES Act is earmarked for use by the Secretary of the Treasury to aid distressed businesses.

CARE Act Provisions Benefiting Individuals

Many of the provisions in the CARE Act were designed to directly help *individual* taxpayers.

- Stimulus payments: The Act authorizes the payment of a credit (a "recovery rebate") in the amount of $1,200 for a single individual or $2,400 for married taxpayers. An additional $500 is allowed for each qualifying child. The credits are phased out by 5% of the amount by which a taxpayer's Adjusted Gross Income (AGI)[2] exceeds a threshold amount: $150,000 for married couples, $112,500 for a head of household, and $75,000 for all other taxpayers. The credits are, technically, an advance refund of credits against a taxpayer's 2020 federal income tax liability; these credits will be taken into consideration in calculating a taxpayer's 2020 income tax liability.

- Increased charitable deductions: For 2020, charitable contributions of cash of up to $300 may be taken as an above-the-line deduction, in determining Adjusted Gross

[1] This payroll tax deferral is not available if a business has had debt forgiven under the Paycheck Protection Loan Program.
[2] The AGI from the 2018 return is used, unless a taxpayer has already filed a 2019 federal income tax return.

Income. The Act also provides for an unlimited deduction for cash contributions for individual taxpayers who itemize deductions.

- Required minimum distributions: For 2020, the CARE Act temporarily suspends the requirement that certain retired taxpayers take a distribution from traditional IRAs or defined contribution plans such as 401(k) or 403(b) plans.

- "Coronavirus-related distribution" from traditional IRAs and defined contribution plans: The CARE Act provides for a waiver of the 10% penalty for early withdrawal imposed by IRC Sec. 72(t) from traditional IRAs and defined contribution plans such as 401(k), 403(b)s, and 457(b) governmental plans, for a "coronavirus-related distribution." Such a distribution is a distribution (not to exceed $100,000) made from January 1, 2020 – December 30, 2020, to an individual (or spouse or dependent) who has been diagnosed with SARS-CoV-2 or COVID-19, or who has experienced an adverse financial consequence as a result of the COVID-19 pandemic. Unless the individual chooses otherwise, such a distribution will be included in taxable income ratably over a three-year period and may be re-paid, without regard to the normal contribution limits, over a three-year period.

- Expanded unemployment benefits: The Act adds $600 per week in unemployment benefits in addition to what a state normally pays, as well as providing an additional 13 weeks of benefits.

- Expanded *eligibility* for unemployment benefits: The Act temporarily expands eligibility for unemployment insurance benefits to include self-employed and "gig" workers, as well as covering state and local government, and nonprofit employees. Further, the new law temporarily extends unemployment insurance to those who would like to work but can't because they're either sick or caring for a family member who is.

- Renter protections – multi-family units backed by federal loans: Another provision of the Act provides for up to 90 days of forbearance for multi-family unit borrowers who have experienced a hardship as a result of the COVID-19 pandemic. Such borrowers may not evict renters or charge late fees during a period of forbearance.

COVID-19 – The Coronavirus Aid, Relief, and Economic Security (CARES) Act

- Federally insured home loans: The CARE Act provides relief for home owners experiencing COVID-19 hardships and whose mortgages are owned by the federal government.[1] Such relief could include a forbearance plan for up to 12 months, relief from late fees, and repayment plans that allow either for a gradual catch-up of skipped payments, or a permanent loan modification to maintain or reduce the monthly payment.

- Federal student loan borrowers: The Act provides relief for student loan borrowers whose debt is owned by the U.S. Department of Education. For the period from March 13, 2020 to September 30, 2020 these loans will be placed in "administrative forbearance," with a 0% rate of interest, allowing borrowers to stop making loan payments. Generally, this provision applies to (1) defaulted and non-defaulted Direct Loans; (2) Defaulted and non-defaulted FFEL Program loan; and (3) Federal Perkins Loans.[2]

Other Appropriations

The CARE Act also provides funding for a number of targeted purposes, including some $150 billion in aid to state and local governments as well as approximately $130 billion to support hospitals and other organizations in the U.S. healthcare system.

Online Resources

Online resources that may be helpful include:

- Internal Revenue Service, at: https://www.irs.gov/coronavirus
- U.S. Department of Labor, at: https://www.dol.gov/coronavirus
- U.S. Small Business Administration: https://www.sba.gov/
- Federal Financing Housing Agency: https://www.fhfa.gov/
- U.S. Department of Education: https://www.ed.gov/

[1] Suh as loans purchased or securitized by the Federal National Mortgage Corporation, the Federal Home Loan Mortgage Corporation, the Department of Veterans Affairs or the Federal Housing Administration.

[2] Some FFEL Program Loans are owned by commercial lenders. Some Perkins Loans are owned by educational institutions. These loans are not covered by the "administrative forbearance" proved in the CARES Act.

Seek Professional Guidance

The foregoing is a highly simplified overview of some of the more notable provisions of the Coronavirus Aid, Relief, and Economic Security Act. To receive maximum benefit from the new legislation, the advice and guidance of trained, experienced professionals is strongly recommended.