

Understanding the Government's Response to COVID-19



How Recent Actions and Legislation Impact You

To help individuals across the country cope with the extraordinary circumstances caused by the COVID-19 pandemic, the United States federal government has taken significant actions, including the recent passage of the Coronavirus Aid, Relief and Economic Security (CARES) Act and the Families First Coronavirus Response Act (FFCRA). The CARES Act is a massive stimulus bill providing over \$2 trillion of relief in the form of loans to businesses, expanded unemployment benefits, and tax relief to both businesses and individuals.

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

Individual Relief

INVESTMENT AND INSURANCE PRODUCTS ARE:

- NOT FDIC INSURED
- NOT INSURED BY ANY FEDERAL GOVERNMENT AGENCY
- NOT A DEPOSIT OR OTHER OBLIGATION OF, OR GUARANTEED BY, THE BANK OR ANY OF ITS AFFILIATES
- SUBJECT TO INVESTMENT RISKS INCLUDING POSSIBLE LOSS OF THE PRINCIPAL AMOUNT INVESTED

Rebate for Individual Taxpayers

A recovery rebate of \$1,200 will be made to individual taxpayers and \$2,400 for married couples who file a joint return. Taxpayers with children will receive an additional \$500 for every child. The rebate checks are reduced for higher income taxpayers and begin phasing out after has \$75,000 in adjusted gross income for a single taxpayer and \$150,000 for joint filers. The rebate amount is reduced by \$5 for each \$100 that a taxpayer's income exceeds the phase-out threshold. The amount is completely phased out for single taxpayers with no children with incomes exceeding \$99,000, and \$198,000 for joint filers with no children.

Withdrawals and Loans from Retirement Plans and IRAs

THE CARES Act waives the 10% tax penalty on early withdrawals up to \$100,000 from a retirement plan or IRA for a qualified individual. A qualified individual is one:

- who is diagnosed with COVID-19
- whose spouse or dependent is diagnosed with COVID-19
- who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of child care due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19

The Act permits those individuals to pay tax on the income from the distribution ratably over a three-year period and allows individuals to repay that amount tax-free back into the plan over the next three years. Repayments are not subject to the retirement plan contribution limits.

In addition, the bill increases the dollar amount available for loans to qualified individuals from qualified plans from \$50,000 to \$100,000, and increases the percentage test limit for loans from half the present value of the participant's benefit to the present value of the entire benefit under the plan.

Furthermore, if the loan repayment is due between the date of the bill's enactment and before the end of 2020, the bill allows the repayment to be delayed for one year from the original due date.

Waiver of Required Minimum Distributions (RMDs) for 2020

The Act authorizes a one-year waiver for RMDs in 2020. The waiver applies to both 2020 RMDs and to first-time RMDs for 2019 that were not taken in 2019 and that would have been taken by April 1, 2020.

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Individual Relief (continued)

The waiver applies to Required Minimum Distributions from IRAs, Defined Contribution plans, and qualified beneficiary accounts.

Expanded Unemployment Benefits

Expanded unemployment insurance for workers usually not eligible for benefits such as the self-employed and independent contractors who are unable to work as a direct result of the coronavirus. The program increases the benefit by \$600 per week through the end of July 2020. Additionally, should workers run out of state unemployment benefits, the federal government will extend benefits by another 13 weeks through December 31, 2020.

Charitable Contributions

The Act encourages Americans to contribute to churches and charitable organizations in 2020 by permitting them to deduct up to \$300 of cash contributions, regardless of whether taxpayers itemize their deductions or not, and suspending the 60% limitation on individuals.

Student Loan Provisions

Payments on federal student loans (principal and interest) can be suspended through September 30, 2020 without penalty. No interest will accrue on these loans during this suspension period.

In addition, employers may provide a student loan repayment benefit to employees on a tax-free basis. An employer may contribute up to \$5,250 annually toward an employee's student loans and other educational assistance.

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

Business Relief

Paycheck Protection Program

Small businesses may borrow 250% of their average monthly payroll expenses, up to \$10 million. This amount is intended to cover eight weeks of payroll expenses including wages, paid sick or medical leave, health insurance premiums, mortgages, rent payments and utility service agreements. This 8-week period may be applied to any time frame between February 15, 2020 and June 30, 2020. The loan is forgiven at the end of the 8-week period so long as employees are retained.

Employee Retention Credit

Employers are eligible for a 50% payroll tax credit on wages paid up to \$10,000 during the crisis. Available to employers whose businesses were disrupted due to virus-related shutdowns and had a decrease in gross receipts of 50% or more. Available for all employee wages for firms with 100 or fewer employees. For Employers with more than 100 employees, a credit is available for those employees who were retained but not currently working due to the crisis.

Delay of Employer Payroll Taxes

Employers and self-employed individuals can defer payment of the 6.2% Social Security payroll tax. The deferred payroll tax will have to be paid over two years: 50% by December 31, 2021 and 50% by December 31, 2022.

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Business Relief (Cont.)

Additional Government Relief

The Families First Coronavirus Response Act (FFCRA)

Net Operations Losses for Business

Net operating losses for businesses are modified, suspending the 80% of taxable income limit beginning in 2018, 2019, and 2020. The limitations on the use of losses has been relaxed, allowing losses from 2018, 2019, or 2020 to be carried back five years. There is also temporary removal of the taxable income limitation to allow net operating losses to fully offset income.

IRS Notice 2020-18 – Extended Dates for Filing Taxes and making IRA Contributions

Taxpayers can file their taxes and make their 2019 federal income tax payments as late as July 15, 2020 without paying penalties or interest.

Additionally, the deadline for IRA contributions has been delayed to July 15, 2020.

Emergency Paid Sick Leave Act

The Emergency Paid Sick Leave Act applies to employers with less than 500 workers and government employers. Employers are required to provide:

- For full-time employees affected by COVID-19: 80 hours of paid sick leave
- For part-time employees affected by COVID-19: A number of hours equal to the number of hours that such employee works, on average, over a two-week period

The sick leave would be limited to \$511 per day and \$5,110 in the aggregate for those on leave because of their own health issue. Those indirectly affected, such as those caring for a family member, are entitled to up to two-thirds pay not to exceed \$200 per day and \$2,000 in the aggregate.

Emergency Family and Medical Leave Expansion Act

The Emergency Family and Medical Leave Expansion Act applies to employers with fewer than 500 workers. Employers are required to provide up to an additional 10 weeks of job-protected leave to employees caring for a child under the age of 18, whose school or place of care is closed due to COVID-19. Employers would be required to pay employees two-thirds of their wages, up to \$200 per day and \$10,000 in total.

Employer Tax Credits for Paid Sick and Family and Medical Leave

Employers would receive a 100% refundable payroll tax credit against the 6.2% OASDI portion of federal payroll tax to reimburse them, dollar for dollar, for paid sick leave and family and medical leave wages paid to employees affected by COVID-19. Any additional wages paid under the sick leave requirement would not be subject to the employer portion of the payroll tax.

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Stay Connected with your Financial Professional

Now, more than ever, you should stay connected with your financial professional. Having a conversation with him or her will ensure you're taking advantage of all the relief opportunities available to you to help you and your family get through this unprecedented time. As always, your financial professional stands ready to help you implement strategies and put in place solutions to protect and strengthen your overall financial wellness.

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1033765-00002-00 Ed. 04/2020