



CYPEN & CYPEN

NEWSLETTER

for

May 21, 2020

Copyright, 1996-2020, all rights reserved
Stephen H. Cypen, Esq., Founding Editor
Robert D. Klausner, Esq., Senior Editor

Never Forget September 11, 2001
and
Always Remember May 2, 2011

1. COVID-19 COMPLIANCE CORNER; NEW LOAN PROVISIONS UNDER THE CARES ACT:

The Coronavirus Aid, Relief and Economic Security (CARES) Act provides temporary relief from some plan loan requirements for loans made and repayments due beginning March 27. These provisions apply to qualified plans such as 401(k) and profit sharing plans, 403(b) plans and governmental 457(b) plans but, unlike the distribution provisions, do not apply to individual retirement accounts (IRAs). IRA owners are not allowed to take loans from their IRAs.

What Are the Basic Plan Loan Rules?

Plan loans are not treated as taxable plan distributions so long as they are within the Internal Revenue Code limits and are repaid with interest on a level basis over the loan term. While loans may be made from defined benefit (DB) pension plans as well as defined contribution (DC) plans, defined benefit plans do not usually provide for loans. Most 401(k) plans and many other defined contribution plans do.

Loans are permitted under the “regular” rules if the total amount borrowed, including loans outstanding over the past 12 months, does not exceed the lesser of: \$50,000 or half of the participant’s vested account balance. The term may not exceed five years unless the loan is used to purchase a principal residence. When a participant fails to make a loan repayment on time, the loan is in default after any grace period has expired, and the entire outstanding principal plus accrued interest is subject to immediate taxation.

How Does the CARES Act Change These Rules?

The CARES Act permits, but does not require, plan sponsors to increase the amount that may be borrowed by “qualified individuals” and/or to delay certain loan repayments by “qualified individuals.” The provisions are effective during different time periods.

Who Is a Qualified Individual?

Like CARES Act distributions, the special loan rules apply to individuals if they or their spouse or tax dependent has been diagnosed with the coronavirus using a test approved by the Centers for Disease Control and Prevention (CDC) or if they have experienced COVID-19-related adverse financial consequences as a result of being quarantined, furloughed or laid off or having work hours reduced, or as a result of being unable to work due to lack of child care, or the closing or cutback in hours of a business owned or run by them. CARES Act loan provisions do not apply if the participant’s spouse or dependent rather than the participant suffers those adverse financial consequences. In that event, the spouse would have to qualify under the spouse’s plan. Other criteria may be added by the Secretary of the Treasury, but none have been added so far.

Special Relief.

If permitted by their plans, “qualified individuals” may borrow up to a total of \$100,000 or the value of the participant’s vested account balance, if less, during the period from March

27 to September 22. A participant with a \$30,000 loan outstanding and a \$150,000 vested account balance could be permitted to borrow an additional \$70,000 under this CARES Act provision. A loan limit between \$50,000 and \$100,000 would also be permissible.

The CARES Act also permits an optional “one-year delay” for each loan repayment due between March 27 and December 31. If a plan adopts this provision, a participant who could not make loan repayments during this period would not go into default or be subject to taxation. I put “one year delay” in quotes because, based on prior guidance issued by the IRS interpreting similar legislation, which the IRS recently advised us to consult, it appears that the maximum suspension period will actually be limited to nine months and that repayments may be required to commence again as of January 1, 2021. We await further guidance on that point. The period during which repayments were suspended is later added to the term of the loan and future payments must be adjusted to take into account interest accruing during the repayment suspension.

Plan Sponsor Decisions Are Voluntary and Independent

IRS guidance indicates that plan sponsors can adopt either or both (or neither) of the CARES Act loan provisions regardless of whether they elect to provide the special [CARES Act distributions](#) discussed in [last week's column](#). However, plan sponsors should be careful to check the exact language in their plan documents because there may be an exception if the plan documents simply incorporate by reference the loan requirements in the Internal Revenue Code. Since the CARES Act amended those provisions, the new limits may have come into effect automatically under the plan's language and plan sponsor action might be required to change them.

Implementation.

Plan sponsors considering the new loan provisions should ascertain that their vendors and recordkeeper can administer them. This is particularly important if a loan limit between \$50,000 and \$100,000 is under consideration. Plan sponsors adopting the new loan rules should also communicate the availability of the loan relief to their participants. Due to the complexity of these rules, they may wish to have their ERISA [Employee Retirement Income Security Act] counsel review any communications. Carol Buckmann, Cohen & Buckmann, P.C., *Plan Sponsor*, www.plansponsor.com, May 18, 2020.

2. PUBLIC PENSION FUNDING INDEX FOR APRIL 2020:

April rebound enables public pensions to recover half of Q1 losses; funded ratio climbs back to 69.8% on the strength of 5.92% market return. Funded status improves by \$200 billion in April 2020.

There were few safe investments during the first quarter of 2020, as economies shut down around the globe in response to COVID-19. But many sectors of the market showed positive signs of recovery in April, restoring some of the losses suffered in February and March. The estimated funded status of the 100 largest U.S. public pension plans as measured by the Milliman 100 Public Pension Funding Index (PPFI) now stands at 69.8%, a far cry from the heady 74.9% at the end of December 2019, but a significant improvement from 66.0% at the end of March 2020.

In aggregate, the PPFI plans experienced investment returns of 5.92% in April, welcome news after Q1's dismal return of -10.81%. The Milliman 100 PPFI asset value recovered from \$3.536 trillion at the end of March to \$3.750 trillion at the end of April.

Milliman estimates the aggregate deficit shrank from \$1.819 trillion at the end of March 2020 to \$1.619 trillion at the end of April, a \$200 billion improvement. Rebecca A. Sielman, FSA, Milliman, www.milliman.com, April 2020.

3. DC PLANS AND PENSIONS PARTLY SPARED FROM ENERGY ROUTE:

While the turmoil in the energy market has not been good for either defined benefit (DB) or defined contribution (DC) plans, because energy has been performing so poorly over the past five years, the exposure to energy in all of the broad indexes has dropped, investment managers say. "In the past five years, energy markets have fallen by 50%," says David Grumhaus, co-chief investment officer (CIO) and senior portfolio manager at Duff & Phelps. "Between 2000 and 2007, the S&P 500 Energy Sector Index was up 16%, whereas the broad S&P 500 market was up 2%. Since 2010, energy has been flat and the S&P 500 is up 11%."

Looking at the weight of the energy market in the S&P 500 in the past three years, it has ranged between 9% and 15%. Today, it has slipped to 3%. "When you think of energy,

you think of inflation and inflation protection,” Grumhaus continues. “These stocks tend to do very well in [periods of inflation](#), but in the past 10 years, we have had very little inflation in the U.S. That has hurt the energy sector a lot.” Jim McDonald, chief investment strategist at Northern Trust, says energy stocks have historically played a bigger role for DC and DB plans than they do today. “Historically, they have appealed to DB plans for the income generation that highly profitable oil companies have provided through dividends,” he explains. “Secondly, for both DB and DC plans, energy equities have provided capital appreciation.”

Frank Rybinski, chief macro strategist for Aegon Asset Management, says it is the exploration and production (E&P) companies in the energy sector—those companies that explore for new sources of oil and gas and then dig wells—that primarily provide such growth. “They are on the riskier side and are return-focused rather than dividend-focused,” Rybinski says. “But since the OPEC [Organization of the Petroleum Exporting Countries] issues first arose and COVID-19 further reduced demand for oil, we have started to see bankruptcies among the smaller exploring companies that were financially leveraged.”

While energy stocks now only compose 3% of the S&P 500 index, McDonald says, they make up as much as 12% of high-yield bonds, and that has hurt the performance of some plans’ fixed income portfolios. “The equity exposure is very manageable, being only 3% of the stock holdings,” McDonald says. “For high-yield bonds, the exposure is greater, but the prices have already reflected the challenges the energy sector has been facing. In fact, I think that in the next year, energy will be a good investment for retirement plans.”

On the other hand, a real problem that DB plans now face is that with oil selling for \$20 a barrel—down from more than \$50 a barrel before the oil crash—many of these energy companies cannot continue their dividend trajectory, says Wylie Tollette, executive vice president, head of client investment solutions, Franklin Templeton Multi-Asset Solutions. “To be able to pay those dividends requires more expensive oil,” he explains. “That is the real source of damage to DB plans.”

That being said, Tollette says many investors have been hesitant to move out of these

energy stocks. “They think that the energy market has settled to a new equilibrium,” he says. “Demand is down 75% since mid-February. Still, many investors are hesitant to sell, thinking that the COVID-19 crisis will eventually abate. They are also heartened by the new OPEC agreement with Russia to start to constrain supply, which will help boost prices.” As far as how the turmoil in the energy markets will affect green investing, Drew Carrington, head of institutional defined contribution investment only (DCIO) for Franklin Templeton, says he doesn’t think the energy turmoil will have any strong effect on the growing interest in environment, social and governance (ESG) investing among retirement plans.

“On the DC side, you may see continued interest in adding ESG investment options to the lineup, but I still don’t think we will see standalone green energy investment choices on the menu,” Carrington says.

On the DB side, Tollette says, many DB plans, particularly public DB plans, are serving purposes other than risk and return. “They are able to put other objectives in their investment mandates,” he says. “When that is possible, we have seen them start to lighten up or completely divest from fossil fuels, as well as do proactive investments into green energy to help promote that industry and address climate change. Others are restricted from doing this because of their fiduciary responsibilities. They cannot fully divest from energy because it is such a large part of the market. As well, energy stocks have offered attractive characteristics from a risk and return standpoint.” Lee Barney, Plan Adviser, www.planadviser.com, May 15, 2020.

4. UNINTENDED CONSEQUENCES; HOW SCALING BACK PUBLIC PENSIONS PUTS GOVERNMENT REVENUES AT RISK 2020 UPDATE:

EXECUTIVE SUMMARY: In 2018, NCPERS’ landmark Unintended Consequences study documented the beneficial ripple effects that occur in communities and states due to retirees’ spending their pension checks and because of investments made by pension funds. This biennial update continues to quantify these effects as well as to demonstrate what is at stake if state and local governments buckle under to short-term policy pressures with ill-advised efforts to “reform” public pensions.

The study shows that the benefits pensions confer on communities grew between 2016 and 2018, the years covered by the 2018 and 2020 studies, respectively. Overall, the added impact of investment of assets and spending of pension checks by retirees, public pensions in 2018 contributed \$1.7 trillion to the US economy and \$341.4 billion to state and local tax revenues. Compare these results with those of the earlier study, which found that in 2016, public pensions contributed \$1.3 trillion to the economy and \$277.6 billion to state and local revenues. The positive impacts of public pensions on the economy and revenues became more pronounced between 2016 and 2018.

NCPERS undertook both the 2018 and 2020 studies against the backdrop of sustained attacks on public pensions. Unfortunately, the argument that taxpayers cannot afford public pensions continues to sway some policy makers despite a woeful lack of empirical evidence to support it. Legislators across the nation are contemplating options for the future funding of public-sector worker retirement benefits at a time when competition for finite state and local resources is fierce. The reasons are familiar: The lingering effects of recession, misguided budget priorities, and a regressive revenue structure have taken a toll. Time and again, defined-benefit pensions for firefighters, police officers, teachers, and other public servants are placed at risk, even though plan participants have consistently held up their end of the bargain. Changes proposed or enacted in the name of “reform” are often thinly disguised efforts to dismantle public pensions rather than reckon with correcting decades of short-sighted government decisions to withhold funding.

As the positive effects of public pensions increase, it only stands to reason that the risks of dismantling pensions are rising, too.

The question asked is this: How does the payment of defined pension benefits and the investment of pension assets impact state and local economies and revenue generation? It is common sense that consumer spending and investment fuel the economy, which in turn expands tax revenues. We hear this all the time in the context of tax cuts. Yet opponents of public pensions seem to believe that pension spending and investment do not grow the economy. True, the pension money comes from taxpayers, but it should be understood that it is part of the compensation of workers providing public services. If these services were privatized, they would cost taxpayers more for the simple reason that the

goal of private companies is to make profit, whereas the goal of a public service is to ensure the public good. In addition to yielding economic benefits, pensions play an important role in the recruitment and retention of a quality public workforce to ensure our collective good.

Previous research has shown that pension beneficiaries bolster the economy by feeding resources back into the local communities where they live and spend their pension checks. However, research on how state economies and tax revenues grow when pension funds invest their assets is very limited. NCPERS' research fills the gap. They examine the broader question of state and local revenues generated by public pensions, and whether these revenues exceed taxpayer contributions to the pensions. They hypothesize that the joint impact of spending of retirement checks and investment of pension fund assets exceeds taxpayer pension contributions in most states. The original methodology draws on historical data from various public sources, including the US Census Bureau, Bureau of Economic Analysis, and Bureau of Labor Statistics. These data span the years 1977 to 2018. The analysis was done in three steps. First, they developed an econometric model to estimate the impact of investment of pension fund assets on state and local economies and revenues. Second, estimated the impact of spending of pension checks by retirees on state and local economies and revenues. Third, assessed whether the total revenues generated by public pensions exceed taxpayer contributions to those pensions, and if so, how much taxpayers would have to pay in additional taxes if public pensions were not there.

The economy was measured in terms of personal income. They found that the economy grows by \$1,362 with the investment of each \$1,000 of pension fund assets. This amount may seem small, but due to the size of the pension fund assets, \$4.3 trillion in 2018, the effect on the economy and revenues is significant. The results show that investment of pension fund assets contributed \$872.4 billion to the US economy, which in turn yielded \$178.8 billion in state and local revenues, in 2018. Similarly, the results show that \$335.2 billion paid to retirees in pension checks during 2018 contributed \$836.9 billion to the economy and \$162.6 billion to state and local tax revenues.

Are public pension funds net revenue generators? The results show that in 2018, pension

funds generated approximately \$341.4 billion in state and local revenues. The taxpayer contribution to pension plans in the same year was \$162 billion. In other words, pension funds generated \$179.4 billion more in revenues than taxpayers contributed to the pension funds. The state-by-state results indicate that pensions in 40 states were net revenue positive – revenues generated by public pensions were more than taxpayer contributions. In the remaining 10 states, pensions were revenue neutral or taxpayer contributions were heavily subsidized by state and local revenues generated by public pensions.

The data that underpin their conclusions forcefully rebut the argument that taxpayers cannot afford public pensions. The evidence presented here shows that if public pensions did not exist, the burden on taxpayers would rise by about \$179.4 billion just to maintain the current level of public services. This “no pensions” taxpayer burden is now 30.1 percent higher than the \$137.3 billion noted in the 2018 Unintended Consequences study. In short, the consequences of dismantling pensions have become more severe. The implication of their findings is clear: Taxpayers cannot afford continued assaults on public pensions. Instead, policy makers must preserve and enhance public pensions, building on this time-honored method of ensuring a dignified retirement for those who have dedicated their lives to public service, including firefighters, police officers, and teachers. *In other words, the question isn't whether governments can afford to support public pensions; the question is whether they can afford not to.*

You can view the complete study [here](#). Michael Kahn, PhD, NCPERS Director of Research, NCPERS, www.ncpers.org, May 2020.

5. DROP IN NEW JERSEY LOTTERY PROCEEDS COULD AFFECT STATE'S PENSION CONTRIBUTION:

New Jersey state lottery proceeds fell 25.6% in April vs. the year-earlier period and 13.3% for the first 10 months of the current fiscal year, continuing to pressure the state's ability to make its full fiscal year contribution to the state's pension system. The state counts on the lottery for about \$1 billion a year to help with the total payment to the pension system, which is supposed to be \$3.75 billion for the current fiscal year. If the lottery comes up short, the state must take more money out of general revenues - or reduce its contribution.

The state has made three quarterly payments of \$684 million, but government officials haven't commented on the fourth payment, which originally would have been due June 30. However, Gov. Phil Murphy recently signed a law extending the current fiscal year to Sept. 30 from June 30. The lottery figures were contained in a report issued Wednesday by the state Department of Treasury. The report contained no comment about the April lottery proceeds of \$60.85 million vs. \$81.74 million for April 2019. For the 10 months ended April 30, the department said lottery proceeds of \$768.66 million trailed the \$887 million for a corresponding period last year. Lottery proceeds are counted separately from other state revenues.

The Treasury Department report said April revenue from major taxes was \$2.35 billion "down an unprecedented \$3.5 billion, or 59.7%, below last April as the economic impact of the global pandemic begins to take its toll on the state's finances." The report also said that "fiscal year-to-date total collections, which had been running ahead of last year through the end of March, are now at \$24.74 billion, down \$2.2 billion, or 8.1% below the same period last year." The April numbers "largely reflect March economic behavior due to the fact that many of the major revenues report with a one-month lag," the report said. April's tax collections also reflect the state's extending the filing and payment deadline for both the income tax and the corporation business tax to July 15 from April 15.

"Because the social and commercial restrictions implemented due to the COVID-19 pandemic were only in place for about half the month of March, the impact of the pandemic on New Jersey's revenue collections is still not fully apparent," the report said. The department will provide updated forecasts by May 22 as part of the budget report required by the law extending the fiscal year. New Jersey Pension Fund, Trenton, had assets of \$74.2 billion as of Feb. 29, according to the latest available data. Robert Steyer, *Pension & Investments*, www.pionline.com, May 13, 2020.

6. MIRAMAR WILL FURLOUGH EMPLOYEES UNTIL DECEMBER TO CURB COVID-19-RELATED FINANCIAL STRUGGLES:

The City of Miramar will be partially furloughing all of its employees until the end of the year because of the continuing novel coronavirus pandemic. Miramar City Manager

Vernon Hargray sent a memo to all city employees detailing how workers will be furloughed for one work-day every week starting June 11 until Dec. 9. "Currently, the organization has made the difficult decision that it must implement certain measures to protect the financial stability of the City," Hargray said in the memo.

Miramar city employees will be furloughed for eight hours each week. This would translate to one day, or shift, being taken off during a regular 40-hour work week. The memo said each of the city's unions have been told of the change to work schedules and a reevaluation will be done of the city's financial situation at a later date.

"I am dedicated to making sure that we retain all our employees through this unprecedented time," Hargray said. "We are hopeful that this crisis will end soon and that the City will be able to overcome its financial difficulties for the good of the City, its residents and you the employees."

In Miami Beach, [35 full-time employees were furloughed](#) and 258 part-time employees were laid off. City Manager Jimmy Morales, City Attorney Raul Aguila and City Clerk Rafael Granado will also take 10-day furloughs. Employees working for them will take five-day furloughs.

In early April, Monroe County commissioners voted to [furlough 61 employees](#) to make-up for revenue losses in the tourism-dependent Florida Keys.

The city of Oakland Park in Broward County is furloughing most city employees other than first responders for one day every two weeks, which amounts to a 10% pay cut. Devoun Cetoute, Miami *Herald*, May 13, 2020.

7. SUMMARY OF CARES ACT PROVISIONS RELATING TO RETIREMENT PLANS:

Congress passed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act, Public Law 116-136) in response to the economic downturn caused by the coronavirus pandemic. The Act includes several items designed to ease employees' access to their retirement funds and certain provisions allowing employers to delay contributions to their pension plans. The Act was effective March 27, 2020.

The retirement provisions of the CARES Act are temporary. Those that most directly affect employees are early withdrawal and plan loan provisions that apply to 401(k), 403(b) and governmental 457(b) retirement savings plans. Most employers with these retirement savings plans will probably take advantage of the temporary changes to their plans that are permitted by the Act. However, employers are not required to adopt the changes. You may want to contact your employer or plan administrator to learn how the Act may impact your retirement plan.

CARES Act temporary changes to retirement savings plan rules:

The following temporary adjustments to retirement savings plan rules only apply to persons directly affected by the COVID-19 virus, who have been laid off or otherwise lost employment income, who are sick or have family members who are sick due to the virus.

- Tax relief for early withdrawals from retirement savings plans, 401(k)s, 403(b)s, 457(b) governmental plans and IRAs, apply to workers with COVID-19 related loss of income or illness of the worker or close family members.

Ordinarily, if you take money out of your retirement savings plan to use for a “hardship” before age 59 ½ you would have to pay a ten percent penalty tax (as well as income tax) on the amount you withdraw. The penalty or “excise” tax for early withdrawals will not apply during 2020 for COVID-19 related distributions that are less than \$100,000. The \$100,000 limit applies to combined distributions from more than one plan and/or IRAs. Money withdrawn can be repaid over a three-year period. Partial repayments are permitted. Any amount repaid within three years will not be subject to income tax. If the money is not repaid it will be taxable, but the tax amount will be spread over a three-year period.

The tax relief for early withdrawals also applies to COVID-19 distributions taken before other permitted events, such as termination of employment or disability, provided that the distribution is one permitted by the plan.

- Modifications to plan loan limits and due dates apply to workers with COVID-19

related loss of income or illness of the worker or close family member.

The plan rules must permit workers to take loans from their retirement savings accounts. The maximum amount of a loan is increased to \$100,000 or the entire vested account balance for loans taken within 180 days after March 27, 2020 (between March 27 and September 23, 2020). Loan payment due dates are extended for one year for payments that are due between March 27 and December 31, 2020. This applies to payments due for new or existing loans. However, interest will continue to accrue on the unpaid loan amount. These modifications to the rules for plan loans do not apply to workers with IRAs.

CARES Act temporary changes to pension plan rules:

- The funding rules for single employer defined benefit pension plans are relaxed. The due date for employer contributions to plans is extended until January 1, 2021.

CARES Act temporary changes for Required Minimum Distributions (RMDs):

- Required minimum distributions (RMDs) for 401(k), 403(b), 457(b) governmental plans and IRAs are waived for 2020. However, individuals who want a RMD may still request one.

The waiver applies to all individuals who would be required to take a minimum distribution from a retirement savings plan in 2020. (RMDs do not apply to Roth accounts or IRAs.) Individuals age 72 and over are required to take minimum withdrawals from their traditional IRAs and their retirement savings plans each year. The waiver also applies to individuals who turned 70 and ½ in 2019 and had not paid a RMD before January 1, 2020.

Individuals who have already received a RMD for the year 2020 may be able to roll the RMD amount into an IRA or another retirement plan if they can meet the IRS rules for rollovers. Generally, to avoid taxes a rollover must be accomplished within 60 days from the distribution date. The IRS has relaxed the rollover timeline for the COVID-19 emergency. IRS Notice 2020-23 extends the permissible 60-day rollover period until July 15, 2020 for distributions taken between February 1, 2020 and May 15, 2020.

Labor Department Notice related to the COVID-19 emergency:

- The U.S. Department of Labor issued Disaster Relief Notice 2020-01 that allows both pension and retirement savings plans to delay providing certain notices and to provide them electronically in certain circumstances. The Notice also allows employers to delay forwarding contributions to 401(k) plans, and temporarily suspends the deadlines for employees and retirees to file claims for retirement benefits and appeals of denials of benefits.

The Notice extends the deadlines for employers to furnish notices that are due between March 1, 2020 and 60 days following the announced end of the COVID-19 National Emergency provided the plan fiduciary provides the notice as soon as administratively practicable. Additionally, employers and plan administrators may use alternative means to furnish notices, such as electronic communications, provided that the plan fiduciary has reasonably determined that the recipients of any electronic communications have the ability to effectively access notices delivered electronically. Plan fiduciaries must make a diligent effort to comply with disclosure requirements and to correct any deficiencies as soon as possible.

The Notice states that the Labor Department will not take an enforcement action for delay in forwarding employee contributions to a retirement savings plan when the delay is related to COVID-19. Employers and service providers must act reasonably and in the interests of employees to comply as soon as possible.

- Deadlines to file claims and appeal denials of claims during the period between March 1, 2020 and 60 days after the announced end of the National Emergency will be disregarded. Deadlines for claims processing will be relaxed, although plan fiduciaries should minimize any loss of benefits or undue delay in benefit payments.
- Advance notice will not be required for a “blackout period” (a period of more than three business days when the rights of participants in 401(k) plans to change investments, take out a loan or other distribution) may be restricted or limited, if the inability to provide advance notice is due to the COVID-19 pandemic.

Pension Rights Center, www.pensionrights.org, May 15, 2020.

8. READ THIS BEFORE YOU FILE YOUR TAX RETURN:

April 15 is receding in the rearview mirror, but Tax Day 2020 is rising ahead like a fog bank on a mountain road. It's a confusing time for U.S. taxpayers who now have until July 15 to file their 2019 returns while considering a jumble of fallout from new coronavirus relief legislation, tax proposals under debate and the lingering perplexities of the sweeping 2017 tax changes.

President Donald Trump is pushing for a payroll tax cut and reportedly weighing other tax measures, such as a reduction or elimination of the capital gains tax, to stimulate the economy. Given the likely hurdles Trump faces in getting ideas like these through Congress, the best play for filers is to focus on the changes that have been made thus far and adjust accordingly.

The first thing to be aware of is that several filing dates have been extended. All federal taxpayers have gotten the three-month extension for filing returns and paying taxes they owe. Those responsible for making quarterly estimated payments also have some extra time - payments for the first and second quarters of 2020, typically due on April 15 and June 15, have been pushed to July 15 as well. While extra time may be helpful, be sure to budget accordingly for those July payments, says Steve Rossman, an accountant in Philadelphia at Drucker & Scaccetti.

So far, deadlines for third- and fourth-quarter estimated payments haven't changed. And for those who file for an additional extension, the due date is still Oct. 15. Also, it's important to remember that states have not changed all their filing due dates. For example, second-quarter estimated payments for New York state income taxes are still due on June 15, even though the first-quarter deadline has been pushed to July 15.

You may be entitled to stimulus payments through the relief legislation passed by Congress in March, the Cares Act. Payments being sent out are based on 2018 returns, or 2019 ones if taxpayers have already filed them, but final amounts will be calculated according to 2020 returns. If you've had a baby, or your income has gone down this year,

you may qualify for more money from the government, so note those changes when you file next year.

The law provides payments of \$2,400 for married couples filing jointly and earning less than \$150,000, plus a \$500 credit for each dependent child. The payments start phasing out for incomes above \$150,000 and is unavailable for married couples earning more than \$198,000. Families that received more than they should have based on 2020 income will still be able to keep the money, according to the Internal Revenue Service.

The Cares Act also establishes a one-time benefit for charitable donors. After the 2017 tax law doubled the standard deduction, few filers took itemized deductions so most taxpayers weren't able to deduct charitable contributions. Now if you take the standard deduction you will still be allowed a separate \$300 deduction in total for qualified charitable gifts when filing next year. Taxpayers who do itemize will be able to deduct more: up to 100% of adjusted gross income as against the 60% allowed by the 2017 law.

Affluent older people can benefit from another provision of the Cares Act that waives the usual requirement to start withdrawing money from individual retirement accounts once they reach their early 70s. Additionally, seniors who didn't withdraw funds for 2019, and those who were set to begin doing so in 2020, are allowed to suspend the distributions until 2021. Accountants say that makes it advantageous to convert IRAs to Roth IRAs - since seniors don't have to take their distributions, their income is lower, which is favorable for a Roth, where you pay tax upfront, but then make future withdrawals tax-free.

Most business owners will now qualify for a particularly lucrative benefit bestowed by the Cares Act if they suffered losses in the last three years. The 2017 tax law ended a longstanding practice of letting owners of sole proprietorships, partnerships and many closely held companies use losses to offset profits from prior years. Thanks to the Cares Act, they'll now be able to use losses incurred in 2018, 2019 or 2020 to offset gains going as far as back as 2013.

Shelter-in-place orders have triggered questions related to taxes owed by employees working from home or who have relocated to new homes. For those who work in one state

but live in another and are now working from their homes, do they still owe both state income taxes? And what about those who have fled their homes, are living elsewhere and may not come back?

The answers aren't 100% clear, but accountants advise strongly against trying to exploit the uncertainties.

Disaster-relief tax provisions might also turn out to help some taxpayers and their employers. For eligible disasters, employers can reimburse employees for reasonable expenses and deduct them. In turn, employees receive the benefits tax-free. The IRS hasn't weighed in yet on whether the coronavirus pandemic qualifies as a disaster, but tax experts seem to think it does.

Finally, while it's most important to focus on the tax changes that have already been enacted, it's also wise to think about what might happen in the future. As federal and state budget deficits balloon, it's logical to think that tax rates have nowhere to go but up. Cash-strapped governments are likely to target the gift and estate tax, many accountants think, lowering the amount that's excluded when bequests are handed down. For that reason, wealthy taxpayers should start transferring money out of their estates while asset values are depressed, interest rates are low and the exemption amount is still high. Ed Reitmeyer, the regional partner-in-charge of tax and business services at Marcum, says he's telling clients 2020 should be the "year of the gift." Alexis Leondis, Wealth Management, www.WealthManagement.com, May 8, 2020.

9. GENERATION Z OUTPACING OTHER AGE GROUPS IN SAVING:

COVID-19's effects on the market, employment and money will [turn Millennial workers into great savers](#). Generation Z, experts say, is already there. The age cohort, identified as those born after 1997, has already shown a heightened consciousness with spending and savings habits. According to the Center for Generational Kinetics (CGK), 12% of Gen Z workers have initiated their retirement savings, while 35% plan to begin saving in their 20s. "These are people that are 23 years old and younger, and they're already [saving for retirement](#)," notes Jason Dorsey, a global researcher at CGK who specializes in the Millennial and Gen Z workforces. "They're doing more comparison shopping, they're

shopping more in thrift stores, they were the ones that have the emergency accounts.”

The financial savviness exhibited by Gen Z is warranted, he explains. Gen Zers saw their parents-typically either Generation Xers or Millennials-struggle through financial downturns during the Great Recession and experience other money worries. This exposure steered a predisposition to save money, more so than most generations, and so much so that Gen Z is now being likened to the Silent Generation, which was made of people who witnessed economic hardships as children during the Great Depression. “Gen Z does not want to end up like their parents. There’s this desire of not wanting to relive the past. They don’t want money to be the reason they can’t live their own way,” adds Jason Bornhorst, CEO and co-founder of First Dollar, a health savings account (HSA) company geared toward Gen Z and Millennials.

The effects of COVID-19, therefore, will likely reinforce the idea that if Gen Zers are looking to live and make money on their own terms, they’ll need to have their finances, and savings, under control. “This is going to change fundamental desires about how they choose their employment and how they allocate their paycheck, both for the current needs and future needs,” Bornhorst continues.

Aside from an influx in savings, industry professionals can expect a spiked interest in traditional workplace benefits, now more than ever. A previous study from Lincoln Financial Group and the Center for Generational Kinetics found retirement plans and health insurance are among the top benefits sought out by this group, not the lifestyle benefits notably associated with younger workers. Sixty percent of Gen Z workers stated they would accept a 10% lower starting salary in return for a better benefits package. “Already prior to COVID-19, these workers were showing that these benefits are important to them,” Dorsey says.

Now exacerbated by the coronavirus crisis, Dorsey and Bornhorst expect to see a rise in health care engagement-most notably with the HSA. Born and raised during the smartphone boom, Gen Z will likely prefer the app-friendly benefit, where participants can check HSA amounts and review health care plans via smartphone. Because HSAs follow participants throughout their careers without a penalty involved, their convenience is

another attractive offering to younger workers, who are more open to job hopping than planting themselves at their employer for many years. According to [Bureau of Labor Statistics \(BLS\)](#), the median tenure of workers ages 25 to 34 is 2.8 years. Gen Zers, with the oldest members at age 23, are prone to follow the same path.

In addition to their portability, HSAs are tax-deductible and can build tax-free wealth through deductible contributions, and, for a generation so keen on financial spending and saving, that alone may be enough to pursue them. Amanda Umpierrez, *Plansponsor*, www.plansponsor.com, May 14, 2020.

10. THE IRS HAS BEEN SENDING STIMULUS CHECKS TO DEAD PEOPLE:

In what appears to be another misstep, the Internal Revenue Service has been sending out stimulus checks to deceased individuals.

The Treasury Department has been sending out the checks based on tax returns filed for either 2018 or 2019, but some of the qualifying individuals based on those records have since died. On May 6, the IRS issued new guidance on what should be done with those payments.

In a Q&A section on its website, the IRS states that someone who died before receipt of the payment doesn't qualify for the payment. The payment must be returned unless the payment was made to joint filers and one spouse is still alive before receipt of the payment, in which event, only the portion of the payment made on account of the decedent needs to be returned.

According to the IRS website, to return a stimulus payment, an individual must write "Void" in the endorsement section on the back of the check and mail it immediately to the appropriate IRS location and include a note stating the reason for returning the check.

If the check was already cashed, you must "submit a personal check, money order, etc., immediately to the appropriate IRS location" payable to "U.S. Treasury" and write 2020EIP, along with "the taxpayer identification number (Social Security number or individual taxpayer identification number) of the recipient of the check," as well as include

a brief explanation of the reason for returning the payment.

Further details, including the state-specific IRS mailing addresses to return the check to, are available on the IRS [website](#). Anna Sulkin, Wealth Management, www.WealthManagement.com, May 8, 2020.

11. IRS ANSWERS QUESTIONS ABOUT CARES ACT PROVISIONS:

Section 2202 of the Coronavirus Aid, Relief and Economic Security (CARES) Act, enacted on March 27, provides for special distribution options and rollover rules for retirement plans and individual retirement accounts (IRAs) and expands permissible loans from certain retirement plans.

A new Q&A document from the IRS clears up some questions stakeholders may have about the CARES Act provisions. The agency says the Treasury Department and the IRS are formulating guidance on Section 2202 of the CARES Act and anticipate releasing that guidance in the near future. It points to IRS [Notice 2005-92, issued on November 30, 2005](#), that provided guidance on the tax-favored treatment of distributions and plan loans under Sections 101 and 103 of the Katrina Emergency Tax Relief Act of 2005 (KETRA) as those provisions applied to victims of Hurricane Katrina. The Treasury Department and the IRS anticipate that the guidance on the CARES Act will apply the principles of Notice 2005-92 to the extent the provisions of Section 2202 of the CARES Act are substantially similar to the provisions of KETRA that are addressed in that notice.

The current guidance explains what a coronavirus-related distribution is and describes relief for participant loans provided under the CARES Act. It also lists who is a qualified individual for purposes of Section 2202.

The guidance explains how retirement plan participants may spread payment of taxes for coronavirus-related distributions (CRDs) over a three-year period. “For example, if you receive a \$9,000 coronavirus-related distribution in 2020, you would report \$3,000 in income on your federal income tax return for each of 2020, 2021 and 2022. However, you have the option of including the entire distribution in your income for the year of the distribution,” it says.

Participants may repay all or part of the amount of a coronavirus-related distribution to an eligible retirement plan, provided that they complete the repayment within three years after the date that the distribution was received. If, for example, they receive a coronavirus-related distribution in 2020, they choose to include the distribution amount in income over a 3-year period (2020, 2021 and 2022), and they choose to repay the full amount to an eligible retirement plan in 2022, they may file amended federal income tax returns for 2020 and 2021 to claim a refund of the tax attributable to the amount of the distribution that they included in income for those years, and they will not be required to include any amount in income in 2022.

The IRS says it is anticipated that eligible retirement plans will accept repayments of coronavirus-related distributions, which are to be treated as rollover contributions. However, it notes that eligible retirement plans generally are not required to accept rollover contributions. If a plan does not accept any rollover contributions, the plan is not required to change its terms or procedures to accept repayments. Additional guidance is found in [the Q&A](#). Rebecca Moore, Plan Adviser, www.planadviser.com, May 7, 2020.

12. DID YOU KNOW ALBERT EINSTEIN SAID THIS:

“Learn from yesterday, live for today, hope for tomorrow. The important thing is not to stop questioning.”

13. INSPIRATIONAL QUOTE:

"Working hard for something we don't care about is called stressed; working hard for something we love is called passion." -*Simon Sinek*

14. TODAY IN HISTORY:

On this day in 1932, after flying for 17 hours from Newfoundland, Amelia Earhart lands near Londonderry, Northern Ireland, becoming the 1st transatlantic solo flight by a woman.

15. REMEMBER, YOU CAN NEVER OUTLIVE YOUR DEFINED RETIREMENT BENEFIT.