

CARES Act: Rebate Payments

In recent weeks, COVID-19 has emerged as a global pandemic as defined by the World Health Organization. With “social distancing” measures in place, many businesses have closed, and a record number of Americans have lost their jobs. The longer businesses are closed, and people remain unemployed, the more of a toll it takes on our economy. To help fill this void, the Federal Reserve has taken drastic steps in monetary policy to keep the financial system stable. On March 27th, Congress passed the largest economic stimulus package in our country’s history, the “Coronavirus Aid, Relief, and Economic Security (CARES) Act of 2020.”

The CARES Act is an estimated \$2 Trillion stimulus package, including nearly \$500 billion in individual rebate checks to Americans, another \$500 billion in support for several severely damaged industries, nearly \$400 billion in tax credits for wages and payroll tax relief, over \$300 billion of support for state and local governments, and almost \$180 billion for various initiatives to support hospitals and the health care system.

Krilogy’s Wealth Intelligence Group has highlighted details specific to the Rebate Payments offered under the CARES Act to keep you informed of how this may impact you.

Recovery Rebate Payments

How much could the payment be?

Taxpayers could receive a refundable income tax credit against 2020 income of up to:

- \$2,400 for Married Couples Filing a Joint Return; or
- \$1,200 for All Other Filers
- This credit is increased by up to \$500 for each child a taxpayer has *under* the age of 17

Who exactly qualifies for a payment?

As a taxpayer’s income begins to exceed the thresholds, the potential Recovery Rebate Payment begins to phase out. The potential Recovery Rebate will be reduced by 5% of the total excess income above the threshold. The applicable Adjusted Gross Income (AGI) threshold amounts are:

- Married Filing Jointly: \$150,000
- Head of Household: \$112,500
- All Other Filers: \$75,000

Example: Jane and Jack are married and file a joint return. They have three children, ages 9, 13, and 16. Their adjusted gross income (AGI) is \$160,000. Their *maximum* Recovery Rebate is $\$2,400 + \$500 + \$500 + \$500 = \$3,900$. But since they have income in excess of the \$150,000 threshold amount, their Recovery Rebate must be reduced by $\$10,000 \times 5\% = \500 . Thus, the actual Recovery Rebate check that Jane and Jack will receive will be $\$3,900 - \$500 = \$3,400$.

Krilogy has created and attached a Recovery Rebate Calculator that will help you to determine how much your Recovery Rebate Payment should be.

What year’s Adjusted Gross Income is used for this calculation?

Recovery Rebates will be dispersed based on either a taxpayer’s 2018 or 2019 income tax return, whichever is the latest one the IRS has on file, but will be ultimately “trued up” if a taxpayer is owed money based on their actual 2020 income.

Delaying the filing of the 2019 tax return may be beneficial for some if your 2018 income qualifies you but your 2019 income phases you out.

What happens to people who earned too much in 2018 and 2019 but now lost their job?

Unfortunately, these workers are not eligible to receive a payment right away. They would get the rebate when they file their taxes in 2020 next year.

Example: Ashley is a single taxpayer with no children who made \$150,000 in 2019, the most recent year for which a tax return is on file with the IRS. Unfortunately, in early 2020 she was let go from her job and ended up making \$50,000 in total for 2020. Ashley is eligible for a \$1,200 Recovery Rebate since her 2020 income is below the threshold but since her 2019 income was above the threshold, she won’t receive **any** assistance now via a Recovery Rebate check. Instead, she will have to wait until she files her 2020 tax return to receive the tax credit.

What if my income is higher in 2020?

You do not have to pay the government back. Technically, your 2020 income is what qualifies you for the payment. Since no one knows their total 2020 income yet, the government is using tax returns from 2019 and 2018 to figure out who qualifies for a check. If you receive a payment now and then your 2020 income is above the

threshold and thus merits a reduced payment or no payment, the money does not have to be paid back.

When will the money be sent?

The CARES Act mandates that Recovery Rebate payments be made as soon as possible, and Treasury Secretary Steven Mnuchin has set a goal for getting the first payments out the door by April 6th. Many experts are saying this is an ambitious timetable and that payments may not be sent out until later in April or in May.

Where will the money be sent?

It depends. Individuals receiving Social Security benefits will receive their Recovery Rebate in the same account they receive their Social Security benefits.

Otherwise, Recovery Rebate payments will be made to the account into which the taxpayer's 2018/2019 refund was deposited, or to the last known address on file.

Is the Rebate Payment taxable?

No, rebates are not considered taxable income.

As always, please contact your Krilogy advisor or advisory team to discuss the above article and how it applies to your unique financial planning situation.

To read the bill yourself and see how this may apply to your unique situation, it can be found here:

<https://www.congress.gov/116/bills/hr748/BILLS-116hr748enr.pdf>

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