

April 8, 2020

RE: ECONOMIC IMPACT PAYMENT – CARES ACT

Dear clients and associates,

The Coronavirus has affected our life in many ways. We'd like to share some information regarding the upcoming Economic Impact Payment (aka: *Stimulus Payment, Recovery Rebate*) via the CARES Act.

The CARES Act includes an Economic Impact Payment of \$1,200 for each individual and \$500 for each dependent child, defined by the child tax credit rules as under age 17. Here are the details.

Who and How Much?

Individuals with adjusted gross income (AGI) up to \$75,000 a year are eligible for the full \$1,200 payment. The payment is reduced by \$5 for every \$100 in income above \$75,000. The payment amount is entirely phased out at an AGI of \$99,000.

Married filing joint couples with AGIs up to \$150,000 a year are eligible for a \$2,400 payment. The payment is reduced by \$5 for every \$100 in income above \$150,000. The payment amount is entirely phased out at an AGI of \$198,000 (if the taxpayers have no dependent children). Married couples also will receive an additional \$500 for every dependent child under 17.

Example - MFJ with no children. Keith and Norma are married filing joint. They have no dependent children. If they have AGI of \$150,000 or less, they are eligible for a \$2,400 payment. If they have AGI above \$150,000, their payment will be reduced and finally phased out at an AGI of \$198,000.

Example - MFJ with two children. Chris and Pat are married filing joint. They have two dependent children under age 17. If they have AGI of \$150,000 or less, they are eligible for a \$3,400 payment. If they have AGI above \$150,000, their payment will be reduced and finally phased out if their income hits the top of the threshold amount.

Head of household filers with AGIs up \$112,500 a year are eligible for the full \$1,200 payment and an additional payment of \$500 for each dependent child under age 17. The payment is reduced by \$5 for every \$100 in income above \$112,500. Head of household taxpayers will also receive an additional \$500 per dependent child under age 17. With no eligible children, a head of household filer is phased out at AGI of \$137,000. With one eligible dependent child, a head of household filer is entirely phased out of the payment at AGI of \$146,400.

Example - Head of Household- no children under 17. Heather has an 18-year-old high school senior living with her and qualifies as a head of household filer. If her AGI is \$100,000, Heather's payment is \$1,200. Her dependent child does not qualify her for the additional \$500 payment because the child is not under age 17. If Heather's dependent child is under age 17, her payment is \$1,700.

Phaseout of the Economic Impact Payment. If your income is above the threshold amounts, a reduced payment will result. The reduced amount using your own income (AGI) can easily be calculated using the Washington Post calculator. (See link below.)

<https://www.washingtonpost.com/graphics/business/coronavirus-stimulus-check-calculator/>

What needs to be done to get the Economic Impact Payment?

Nothing. The IRS will deposit the calculated amount directly into your bank account, using the AGI and the bank information on your 2019 tax return. If your 2019 return hasn't been filed, the IRS will use the AGI and the bank information from your 2018 tax return. If there's no bank information on the return, the IRS will mail a check.

What if the IRS does not have my direct deposit information? What can you do?

In the coming weeks, Treasury plans to develop a web-based portal for individuals to provide their banking information to the IRS online, so that individuals can receive payments immediately as opposed to checks in the mail.

What about Social Security recipients who are not typically required to file?

Social Security recipients who are not typically required to file tax returns will not need to file a "simple" tax return to receive an Economic Impact Payment. Instead, payments will be automatically deposited into their bank accounts.

The IRS will use the information on the Form SSA-1099 and Form RRB-1099 to generate \$1,200 Economic Impact Payments to Social Security recipients who did not file tax returns in 2018 or 2019. Recipients will receive these payments as a direct deposit or by paper check, just as they would normally receive their benefits.

What about others not typically required to file a tax return (other than Social Security beneficiaries). Can they still receive a payment? Yes. People who typically do not file a tax return will need to file a "simple" tax return to receive an economic impact payment. This includes certain low-income taxpayers, senior citizens, some veterans and individuals with disabilities who are otherwise not required to file a tax return and will not owe tax. The IRS will soon provide information instructing people in these groups on how to file a 2019 tax return with simple, but

necessary, information including their filing status, number of dependents and direct deposit bank account information. See upcoming information at: [IRS.gov/coronavirus](https://www.irs.gov/coronavirus).

When Will the Payments Arrive?

The IRS says that a direct deposit should be in your bank account in about three weeks. Checks should start arriving in six to eight weeks.

2020 Tax Return

Technically the economic impact payment is a 2020 refundable tax credit. The payment received in the next few weeks is an IRS advance. If you have less income in 2020 than in 2019 because of layoffs, reduced hours and closed businesses, and your rebate payment was reduced by the income threshold, you'll receive a credit for the difference on your 2020 return. If for some reason, you receive too much of an advanced payment, you do not have to pay back the excess.

Please contact us if you have questions and stay safe.

Sincerely,

Werner O'Meara & Co. PLLC