March 31, 2020

TRIVETT WEALTH MANAGEMENT

Impact of the CARES Act on Medical Students, Residents, and Attending Physicians

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I have decided to structure this in an executive summary format, and therefore, this should not be viewed by any means as an exhaustive analysis. Simplicity is the objective here, not granular-level detail. Where necessary, I have included my thoughts as it pertains to certain components of the bill. You need to consult with your CPA or attorney regarding the specifics of how it will directly impact your unique situation. But, from a 30,000 foot few, here are the highlights for you medical folks.

<u>Those with Adjusted Gross Income Less Than $150,000 (married) or $75,000 (single)</u>

- Congress will be 'fronting' taxpayers a **$1,200 per person (plus $500 per child)** *recovery rebate*.
    - These payments will be dispersed based on 2018/2019 income even though they are actually for 2020.
    - I expect these payments to show up in your mailbox sometime in May, but we don't know for sure as of this writing.
    - Keep in mind that if your income dramatically changed from 2018/2019 to 2019/2020 the amount you are paid could be "trued-up."
- Most **medical students will likely not qualify** for this because one of the conditions is that an individual must not be dependent on another taxpayer – most students are claimed as dependents on their parent's tax return, thus rendering them ineligible.
- In most cases, **those in medical residency will likely qualify** for the rebates.

<u>Those with Student Loans</u>

- **Interest AND payments are being suspended** on all federal student loans (excluding FFEL,) for SIX MONTHS, through Sept 30th.
    - During this time**, no interest will accrue on the debt.**

    - I have been unsuccessful at definitively determining whether loan payments will automatically stop OR if it's the lender's responsibility to contact their loan provider/servicer. Stay tuned.
- Those who are aiming at the Public Service Loan Forgiveness Program**, the 120 month "clock" will continue ticking** during the six-month suspension – assuming all other requirements are being met (full-time employment, etc.)
- Voluntary payments are not prohibited. Although if you are a loan forgiveness candidate, I can't see the why you would want to do this.
- Employers can exclude student loan repayments from compensation up to $5,250, but only through the end of 2020.

<u>Those in a Group or Private Practice</u>

1) The Act creates the ***Paycheck Protection Program*** which allows small businesses to take an SBA loan (maximum maturity of 10 years) for up to 2.5 times the average monthly payroll cost over the previous year. All or a portion of this loan is **eligible for forgiveness**.
    - To be eligible for forgiveness, your business **must maintain the same number of employees** from Feb 15, 2020 through June 30, 2020. To the extent this requirement is not met, the amount eligible for forgiveness will be reduced. Additional **reductions in the loan forgiveness will be incurred if employees have their compensation cut by more than 25%**.
    - Any debt forgiven pursuant to this provision is **not included in taxable income** for the year. This is a big deal in my opinion.
    - The maximum interest rate that can be charged is 4%.
    - Payments made for loans will be deferred for a period of no less than six months and no longer than one year.

    -The forgiveness component of the *Paycheck Protection Program* is one of the more complicated pieces of the Act – at least that's how I found it to be. You will definitely want to seek the counsel of your CPA on this one.

2) Employee Retention Credit
    - There is a new payroll tax credit for businesses whose operations have been fully or partially suspended, and continue to employee their staff, during a quarter (either because of mandatory shutdown or substantial reduction in revenue – at least 50% reduction)
    - The credit is equal to 50% of wages paid to each employee, up to a maximum of $10,000 of wages per employee.

3) Deferral of Payment of Payroll Taxes
    - Employers (including self-employed individuals) are eligible to defer payroll taxes from the date of enactment, through the end of the year, until the end of 2021 and 2022.

<u>Those with Retirement Accounts</u>

- **Waiver of the 10% penalty up to $100,000** of distributions from IRAs and employer retirement plans that are made in 2020. In order to qualify, an individual must have been directly or indirectly impacted by the Coronavirus. It is my opinion that this should be an option of last resort.
    - You have **three years to roll all or any portion of the distribution back into a retirement account**.
    - You will have the option to spread out the tax liability created by the distribution, over a three-year period.
        - This actually may not make sense for many, especially if your income will be lower in 2020, compared to 2021, 2022, or 2023.
- **The maximum loan amount is increased to $100,000** (currently at $50,000) from employer sponsored retirement plans (401k, etc.).
    - Any payments that would otherwise be owed on the plan loan from the date of enactment through the end of 2020 may be delayed for up to one year.
- **Required minimum distributions are waived** in 2020.
- Individuals will have the ability to **return unwanted 2020 RMDs** that have already been taken.

<u>Those with Charitable Contributions</u>

- There is a new **$300 "above-the-line" deduction for Qualified Charitable Contributions**.
    - I don't see this as a huge deal, but it's better than nothing. Currently, for those who take the standard deduction, there is no tax benefit for giving to charity. This will slightly change that.

Sincerely,

Matthew J Trivett CFP® CLU® ChFC®