The Light

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How COVID-19 Changed Our World

By Tim Rowsey, CPA, Investment Advisor

On February 19th the Dow Jones Industrial average and the S & P 500 both hit new all-time highs. Interest rates were once again at historic lows and it appeared that all was good with the economy, the stock market, and our world. Anyone predicting the future, even of just the next 60 days, would have been hard pressed to imagine what was about to happen.

On February 19th if you had told your neighbor that in 40 days there would be no professional sports, all schools would be closed, most people in the country would be advised to stay in their homes, only "essential" businesses would be open, and it would be difficult to buy toilet paper, your neighbor would have told you that you were crazy. In addition, you could have told your neighbor that the government will pass a $2 trillion stimulus bill and mail checks to most Americans.

On top of the obvious life changing disruptions that we have all experienced in the last 40 days, the stock market has also undergone some significant upheaval. The eleven year bull market that we had been enjoying came to an abrupt halt. The S & P 500 index lost over 30% in 22 trading days. This is the fastest decline of 30% in history. During that time it also lost 11.9% in just one day. This brought all of the major indices into bear territory (greater than 20% market loss).

As talks of a possible government stimulus package emerged, however, a sharp market rebound developed. From the March 23rd recent new lows, a rally ensued that would see the S & P 500 gain back 17.5% in three days. In a similar manner the Dow Jones Industrial average regained over 21% in a matter of three trading sessions.

All of this volatility in the market is a great reminder of the reason we recommend a consistent long term approach to investing rather than jumping in or out of the market based on current news or rumors. We are living in a new time of extreme uncertainty about what the next few months will hold. Markets do not like uncertainty and we may be in store for more market volatility. We believe that it is important to maintain an investment in the markets and in America in these uncertain times. Those who were out of the market from March 23rd thru March

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Analyzing the CARES Act

By Chris Bevington, CPA, MTAX, CFP®, Investment Advisor Rep.

Analyzing the 2020 CARES (*Coronavirus Aid, Relief, and Economic Security*) Act

In response to the unfolding COVID-19 global pandemic, Congress has created what now appears to be the largest economic stimulus package in our country's history at an estimated $2 trillion. The package includes nearly half a trillion dollars in individual rebate checks, $500B to help support our most severely-damaged industries, $400B in wage tax credits and payroll tax relief, $300B in support of state and local governments, and $150B to help support hospitals and the health care system. Below are some of the most notable provisions contained among the near 900 pages covered by the Act.

Recovery Rebates

Over 90% of taxpayers should receive some amount of recovery rebate. The initial amount paid will be based on either the taxpayer's 2018 or 2019 income tax return, (*whichever is the latest on file with the IRS*), and will ultimately be 'trued up' based on actual 2020 income. Stated another way, Congress is going to 'front' taxpayers an estimated amount based on 2018/2019 incomes. But if the 2020 return shows a rebate was really "deserved," taxpayers will ultimately get it after all, albeit much later. And surprisingly, if you receive a rebate check, and your 2020 income is high enough that the check is determined to be "undeserved," there will be no required payback for the excess payment.

Rebate payments for married couples filing a joint return will be up to $2,400, while all other filers will receive payments up to $1,200. Payments are increased by up to $500 for each child a taxpayer has under the age of 17. Payments are based on adjusted gross income thresholds of $150K for MFJ, $112,500 for Head of Households, and $75K for all other filers. As taxpayers' income begin to exceed their applicable threshold, the potential recovery rebate payments are reduces $5 for every $100 a taxpayer's income exceeds their income threshold.

When and Where Recovery Rebate Advances Will Be Paid

Although not specifically stated, early indicates are that

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COVID-19 (continued from page 1)

26th missed a 17% to 20% rebound on their investments.

The new Federal stimulus bill will go a long way to putting money back into the pockets of most Americans, and also offering small businesses some incentives to rehire workers who may have been laid off or keep workers employed. If nothing else, the last month has shown that we as Americans are a resilient bunch that are capable of making major adjustments for the good of those we are trying to protect from this virus and for the good of the country.

As we move forward into unchartered territory, we are encouraged by the hope and spirit that we can bring to these new problems that will help us all get through this together. We are already seeing companies transitioning their production to products such as ventilators or masks that are so badly needed. We will move forward through these challenging times and our country, our economy, and our people will all come out stronger on the other side. ■

CARE Act (continued from page 1)

recovery rebate payments will begin "sometime in May." As to "where" payments will be made, it depends. For individuals receiving Social Security benefits, the intent is for payments to be made into the same account that they receive their Social Security benefits. The CARES Act also authorizes rebate payments to be made to the account into which a taxpayer's 2018/2019 refund was deposited. Other payments will be sent to the last known address on file. What happens if a taxpayer has moved since they last filed a return? The CARES Act indicates the IRS will provide a phone number for individuals to track down 'lost' payments under such circumstances.

Required Minimum Distributions WAIVED in 2020
The CARES Act not only eliminates RMDS for 2020, but any RMD that otherwise needed to be taken in 2020. This would include individuals who turned 70 ½ in 2019, but did not take their first RMD in 2019 (*and would have normally been required to take such a distribution by April 1st 2020, as well as a 2nd RMD for 2020 by the end of 2020.*) Such individuals are not required to take either their 2019 RMD or their 2020 RMD.

Coronavirus-Related Distributions
Coronavirus-Related Distributions are distributions up to $100K made from IRAs, employer-sponsored plans, or a combination of both, which are made in 2020 by an individual who has been impacted by the Coronavirus. "Impacted" will be broadly defined and includes: individuals (*including their spouse/dependents*) who have been diagnosed with COVID-19; individuals who have experienced adverse financial consequences due to being laid off or having reduced work hours, or are unable to work due to lack of childcare; some other reason the IRS decides is acceptable.

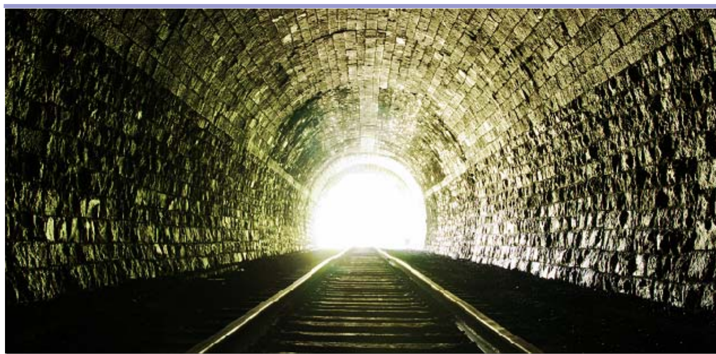
Qualifying Coronavirus related distributions are exempt from the 10% early withdrawal penalty, even for individuals under the age of 59 ½. Such distributions are also eligible to be repaid over 3 years, and for those distributions that are repaid, returns can be amended to claim a refund on any taxes paid due to these distributions.

Above-the-Line Deduction for Qualified Charitable Contributions
Congress introduced a new above-the-line deduction for taxpayers who make qualifying charitable contributions in 2020. The good news is taxpayers who make charitable contributions who are unable to itemize will now qualify for a tax deduction. The bad news is the deduction is limited to just $300. I'm not a fan of the small limitation, but this is still a welcome change. As currently written in the CARES Act, it mentions "starting in 2020," but there's no mention of a sunset or ending year. Thus far, it would appear this is a permanent change, whether intentional or not.

Definition of Qualified Medical Expenses has been expanded
Beginning in 2020, the definition of qualified medical expenses for purposes of HSAs, MSAs, and FSAs is expanded to include over-the-counter medications. Qualified medical expenses for such accounts are further expanded to include amounts paid for "menstrual care products."

Expansion of Unemployment Compensation Benefits
Social distancing, limitations on large group gatherings, and government-ordered lockdowns have had a dramatic impact on businesses and their ability to retain workers. The most recent data available for individuals applying for unemployment shows an unprecedented 3.3 million individuals applying for unemployment benefits. For the many who have already been impacted, and the countless others who will likely face similar circumstances in the coming weeks, the CARES Act does provide some relief.

- Self-employed individuals (who are generally ineligible for unemployment compensation benefits) and others, who are ineligible for 'regular' unemployment, will be eligible for up to 39 weeks of benefits.
- In general, individuals have been ineligible to receive benefits the first week they are unemployed. This one week elimination period was meant to encourage people to get another job quickly so as to avoid a week without income. Current conditions make it nearly impossible to find new work quickly. The CARES Act will pay



states to provide unemployment benefits immediately, effectively covering the ‘normal’ one-week waiting period that had been without benefits.

- The CARES Act will allow states to increase their unemployment benefits by up to $600 per week with federally-funded dollars, for up to four months. The average unemployment benefit nationwide is under $400, meaning many individuals will see their unemployment checks increase by 150% or more thanks to this federally funded program.
- The CARES Act will extend unemployment compensation provided under state law by an additional 13 weeks.
- The CARES Act provides incentive (*by covering 50% of the set up costs*) for states to establish programs meant to help employees who have seen hours cut and income drop, but who are still employed and ineligible for ***un***employment compensation benefits.

Paycheck Protection Program and Forgivable Loans
Businesses, including sole proprietors, that have fewer than 500 employees may be eligible for small business loans used to help pay for payroll costs, group health insurance premiums, rent, mortgage interest, and utilities. Eligible borrowers are required to make a good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by the coronavirus. Loans issued under the Paycheck Protection Program have the potential of having all or a portion of the loan forgiven. The amount eligible to be forgiven is the amount spent during the first 8 weeks after the loan is made on: eligible payroll costs; rent pursuant to a lease in force prior to February 15, 2020; eligible utilities in force prior to February 15, 2020; and group health insurance premiums and other healthcare costs. There are stipulations and requirements that must be met to have the debt forgiven, but debt forgiven pursuant to this provision is not included in taxable income.

Ultimately, the 2020 CARES (Coronavirus Aid, Relief, and Economic Security) Act is a historic relief program prepared for Americans to provide much-needed assistance in response to the COVID-19 pandemic and the economic damage it has created. The CARES Act will undoubtedly be dissected for weeks and months to come, but hopefully this brief review provides some of the most notable highlights. ■

Market Recap

How the major indices performed in the 1st Quarter 2020

DOW JONES INDUSTRIAL AVERAGE
1st Quarter return -23.2% YTD return -23.2%

S & P 500 COMPOSITE
1st Quarter return -20% YTD return -20%

RUSSELL 2000
1st Quarter return -30.9% YTD return -30.9%

BARCLAYS AGGREGATE BOND
1st Quarter return 3.1% YTD return 3.1%

*All indices are reported Total Return which includes Dividends

Summary of Key Elements of the New SECURE Act

On January 1, 2020 the Setting Every Community Up for Retirement (SECURE) Act became law. Here are some of the more notable points you should be aware of:

Increased the RMD age from age 70 ½ to age 72
Individuals who turned 70 ½ in 2019 or earlier will still fall under the old rules, meaning RMDs will be required this year and in all future years. If you turn 70 ½ in 2020 or later, RMDs are not required until you reach age 72.

The SECURE ACT eliminated the age limit for making traditional IRA contributions
Prior to this law change, people over age 70 ½ were unable to contribute to a traditional IRA. This change eliminates the age limit restriction, as long as the individual has earned income (wages or self-employment income).

Eliminates “Stretch IRA” for non-spouse beneficiaries
Under prior rules, non-spouse beneficiaries of inherited retirement accounts had the option of “stretching” distributions over their expected lifetimes. The new law requires such individuals to fully distribute those assets within 10 years.

Qualified Charitable Distributions (QCDs) can still be made at age 70 ½
Although the SECURE Act changes the age at which RMDs must be made, the law made no such change to the age at which Qualified Charitable Distributions (QCDs) may begin. Even though IRA owners are not required to start taking RMDs from their IRAs until age 72, they will still be able to make QCDs from their account once they have reached the age of 70 .■

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