

Additional Tax Relief; Highlights for Individuals

March 31, 2020

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into law on March 27, 2020 and, as part of its broad financial assistance and economic relief provisions, contains sweeping changes intended to provide tax relief for individuals and businesses. This Client Memorandum highlights recently expanded Treasury guidance extending certain April 15, 2020 tax filing and payment deadlines to July 15, 2020, as well as select tax provisions of the CARES Act that may be of interest to individuals in connection with their own tax planning.

- **Extension of Certain Federal Income, Gift and GST Tax Filing and Payment Deadlines.** Under recently issued Treasury guidance, the deadlines applicable to individual taxpayers for filing annual 2019 federal income and gift (and generation-skipping transfer) tax returns and making the related tax payments normally due April 15th (including first quarter 2020 federal estimated income tax payments) are automatically postponed for three months to July 15, 2020, without the need to file for an extension and without any limitation on the payment amounts that may be deferred. The extension of these tax filing and payment deadlines also applies to trusts and estates, where applicable.
- **Modification of Charitable Cash Contribution Deduction Limitations.** The CARES Act modifies certain income tax limitations on the deductibility of charitable cash contributions made by individuals. These changes do not apply to non-cash charitable contributions, or to charitable cash contributions made to the most common type of private foundations, donor advised funds or “supporting organizations”. Individuals who itemize their deductions on their 2020 income tax returns may deduct the full amount of the relevant charitable cash contributions made in 2020, up to the full amount of their adjusted gross income (normally the relevant deduction is limited to a percentage of adjusted gross income). Individuals who do not itemize their deductions on their 2020 income tax returns may deduct up to \$300 of their relevant charitable cash contributions made in 2020. The modification with respect to individuals who do not itemize their deductions also extends to subsequent tax years.
- **Temporary Waiver of Required Minimum Distribution Rules for Certain Retirement Plans and Accounts.** Under the CARES Act, the required minimum distribution (RMD) rules do not apply for calendar year 2020 to IRAs (including inherited IRAs) and certain employer-provided defined contribution plans, including 401(k) plans, 403(a) plans, 403(b) plans and certain 457(b) plans. This change allows taxpayers who would otherwise be required to drawdown benefits in 2020 based on December 31, 2019 account values to forgo any required drawdown for 2020 and resume the normal annual required drawdowns in 2021. Taxpayers who already withdrew their 2020 required minimum distributions under the prior rules might explore “rolling over” those distributions by contributing them back to an appropriate IRA.
- **Special Rules for Use of Retirement Funds.** The CARES Act waives the 10% early withdrawal penalty for certain coronavirus-related distributions, up to \$100,000, made during 2020 from an eligible retirement plan. Any income inclusion attributable to such distributions would be subject to tax over a three-year period. The amount distributed may be recontributed to an eligible retirement plan within three years after the date of such distribution, without regard to the annual cap on contributions. The CARES Act also provides flexibility for loans from certain retirement plans for coronavirus-related relief.

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More extensive coverage of the CARES Act can be found at www.davispolk.com. Please let us know if you need copies of any of your current estate planning documents, would like our help in reviewing your estate plan or have any questions.

If you have any questions regarding the matters covered in this publication, please contact any of the lawyers listed below or your usual Davis Polk contact.

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