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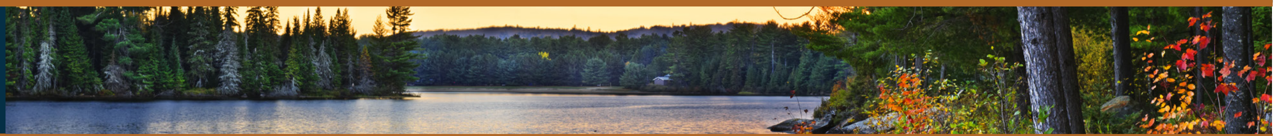
TRUSTS & ESTATES NEWSLETTER

April 2, 2020



COVID-19 Update for Trusts and Estates Clients

Federal and state governments have taken a number of actions in recent weeks in response to COVID-19 pandemic. Although there is certain to be additional governmental action in the near future, we thought it would be helpful to summarize the key actions that relate to our trusts and estates clients.

Automatic Postponement of Certain Federal and Connecticut Income Tax Returns

To provide relief to taxpayers affected by the COVID-19 pandemic, the IRS announced an automatic extension of the due date for income tax payments and the filing of income tax returns from April 15, 2020 to **July 15, 2020**. The extension of the due date for the payment of tax and filing of income tax returns applies not only to individual taxpayers but also to trusts. There is no need for taxpayers, including trustees, to make any filing with the IRS for the extension to July 15th to apply, and there is no limit on the amount of tax that may be extended. Similarly, April 15th estimated payments with respect to the first quarter of 2020 are automatically extended to July 15, 2020. The second quarter estimated payment has not been extended.

Connecticut similarly announced an automatic extension of the due date for the payment and filing of individual income tax returns from April 15, 2020 to July 15, 2020. The due date for first and second quarter Connecticut estimated payments was also automatically extended to July 15th. The Connecticut automatic extensions for income tax returns and tax payments, including estimated payments, applies to trusts as well as individuals.

The CARES Act

On March 27th, the Bipartisan Proposal for Coronavirus Aid, Relief, and Economic Security Act (also known as the "CARES Act") went into effect. The CARES Act is a 2.2 trillion dollar stimulus package intended to assist the United States economy in the face of the COVID-19 pandemic. The key provisions that relate to our trust and estate clients are summarized below.

Individual Tax Relief
Recovery Rebates for Individuals - Perhaps the signature piece of the CARES Act is the economic relief it provides for certain individuals in the form of a cash payment. Payments of up to $1,200 will be made to each adult (therefore, $2,400 for individuals filing joint returns) who is not someone else's dependent and will receive $500 for each qualifying child. The payment phases out by 5% of adjusted gross income over $75,000 for individuals filing separate returns, $112,500 for those filing head of household, and $150,000 for those married filing jointly, but not below zero. The Treasury Department is permitted to rely on either 2018 or 2019 returns in determining what payments should be made. If no return information is available for 2018 or 2019, Social Security Administration records can be relied upon to compute the appropriate amount.

As an example of how the phase out would work, a married couple filing jointly with a 2018 adjusted gross income of $170,000 should expect to receive a payment of $1,400, which is calculated by multiplying $1,200 by two (joint return) and then subtracting $1,000, which is 5% of the married couple's adjusted gross income over $150,000 (5% x $20,000 = $1,000).

Charitable Giving
The CARES Act adopts two significant changes to the charitable contribution deduction.

First, for tax year 2020, Section 2204 of the CARES Act allows individuals who do not itemize their deductions to take an above-the-line deduction (*i.e.*, a deduction made to calculate adjusted gross income) for up to $300 in charitable contributions.

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Second, also for 2020, Section 2205 of the CARES Act suspends the current 60% adjusted gross income limit on deductions for cash charitable contributions for those individuals that do itemize deductions. So, for example, if an individual who itemizes deductions is so inclined, the individual can take a charitable deduction for up to 100% of such individual's 2020 adjusted gross income, subject to certain limitations.

In both cases, contributions made to supporting organizations (*i.e.*, organizations described in Internal Revenue Code Section 509(a)(3)) and donor-advised funds do not qualify.

Waiver of 2020 Required Minimum Distributions (RMDs)

The CARES Act provides a temporary waiver of the required minimum distribution (RMD) rules for the 2020 calendar year. This elimination of the RMD for 2020 applies to all defined contribution section 401(a) plans such as 401(k) plans, as well as 403(b) plans, IRAs and 457(b) plans sponsored by governmental entities (but not 457(b) plans sponsored by non-governmental tax-exempt entities).

This RMD waiver for 2020 applies to all persons who would otherwise be required to receive a RMD in 2020, even if a person is neither ill with COVID-19 nor experiencing coronavirus-related adverse financial consequences. The 2020 RMD waiver eliminates the harsh effect of having to calculate a 2020 RMD based on a participant's account balance on December 31, 2019, which was in all likelihood significantly higher than its current balance, given the pandemic-related stock market losses. Without this 2020 RMD waiver, persons would experience a disproportionate shrinkage of their retirement plan and IRAs and a disproportionate amount of taxable income for 2020. Several additional aspects of the RMD waiver are:

- The RMD waiver also applies to persons for whom 2019 would be their first RMD distribution year, in the event those persons were waiting until their required beginning date of April 1, 2020, to receive their first RMD.
- The 2020 RMD has no effect on the resumption of the RMD rules for 2021, or how the RMD is calculated for years after 2020. In other words, a person will not have to "catch up" later to make up for no RMD for 2020.
- In cases where a person dies before starting RMDs, in applying the general rule that requires that the account balance be fully distributed within the 5-year period after death, the 2020 calendar year does not count for determining the 5-year period.

We hope you and your families are safe and healthy during this crisis. Please contact your estate planning attorney with any questions on the topics summarized in this newsletter or with questions regarding your estate planning matters.

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