5 CARES Act Benefits to Take Advantage of Before Year's End

If you haven't taken action yet, there is still some time to make the most of the CARES Act benefits, including charitable tax deductions and penalty-free early IRA withdrawals.

When you think about the actions the U.S. government has taken to help stem the economic damage caused by the COVID-19 pandemic, you probably remember those that put more money in your pocket. The $1,200 stimulus payment. The extra weekly $600 you received in additional unemployment benefits if you lost your job. The no-interest loans you received to keep your small business afloat. The temporary suspension of your student loan payments.

All of these benefits were made possible by the Coronavirus Aid, Relief and Economic Security (CARES) Act, which was enacted in March. Many of these benefits have expired and may not be renewed. But some of them are still available.

Here are five CARES Act benefits you may want to consider taking advantage of before year's end.

1. Give more – and get more tax benefits

Normally, you can only deduct charitable contributions if you can itemize deductions. And since most people can't deduct more than the annual $12,400 standard tax deduction for individuals ($24,800 for married couples) there's not much of a tax incentive for charitable giving.

But this year, the CARES Act lets anyone deduct up to $300 in cash donations they make to qualified charities.

And if you can itemize, the tax benefits are even better. You can deduct all of your cash donations, up to 100% of your adjusted gross income (AGI). Normally, this limit is 60% of AGI.

Businesses benefit, too. They can deduct up to 25% of qualified charitable cash contributions from their taxable income. Before the CARES Act, this limit was 10%.

And, unlike most CARES Act provisions, which expire at the end of 2020, these special charitable tax benefits will also be available for donations you make next year.

2. Don't need your annual retirement distribution? Waive it!

If you've started taking annual required minimum distributions (RMDs) from your 401(k) or 403(b) plans and IRAs but haven't taken this year's distribution yet, you may be in luck.

That's because in 2020 only you don't have to take this distribution. If you don't need this money to live on, consider waiving your RMD. Doing so will keep this distribution from increasing your taxable income. And, more importantly, keeping this money invested will give it another year to grow tax deferred.

If you want to waive the RMD, you should contact your IRA or 401(k) or 403(b) plan provider or your financial adviser to let them know as soon as possible, especially if your accounts are set up to automatically make your 2020 distribution in December.

Unfortunately, if you already took your RMD this year the deadline has passed for you to recontribute this amount.

3. Tapping your retirement assets to pay for COVID-19 related financial hardships

From lost income to staggering medical expenses, many people under the age of 59½ are teetering on bankruptcy or at risk of losing their homes due to the pandemic. Yet, many of these same people have saved a lot of money in their 401(k) or 403(b) plans and IRAs.

The CARES Act makes it less expensive for those affected by COVID-19 to access these savings right now. If you or anyone in your family has been affected by the coronavirus pandemic, or has lost their livelihood because of the crisis, you can withdraw up to a total of $100,000 from your retirement accounts this year without having to pay the usual 10% early withdrawal penalty.

But these withdrawals aren't tax free. They'll be treated as taxable income. This could increase your 2020 tax bill or even push you into a higher tax bracket.

The good news is that you can spread this taxable income over a three-year period. For example, if you withdraw $15,000 this year, you can report $5,000 of this income in 2020, 2021 and 2022. And, when you're back on your feet, you can recontribute part or all the amount of your withdrawal over the next three years without it counting toward your annual contribution limit.

If you want to take this special early withdrawal, you need to complete it by Dec. 31. But before you do, you should really try to find other ways to get the money you need, even if you have to borrow from friends or family members or take out a personal or home equity loan. Any money you remove from your 401(k) or 403(b) plans and IRAs today could keep you from building a large enough nest egg to let you live the way you want to after you retire.

4. Healthier benefits for HSA and FSA owners

If you contribute to a Health Savings Account (HSA) or Flexible Savings Account (FSA) offered by your employer, the CARES Act now gives you more ways to get reimbursed for out-of-pocket health care expenses.

You can now use these accounts to pay for over-the-counter drugs and medicines without having to get a prescription first. And, in a key win for women, HSAs and FSAs can now be used to pay for menstrual products. This change is permanent.

This flexibility is really helpful for FSA participants who are struggling to spend their annual contributions, since if they don't use them all this year, they can only carry over $550 of their remaining balances into next year.

5. Free COVID-19 tests and more flexible remote care coverages

The CARES Act now requires all group health plans to provide free COVID testing to subscribers. For participants in high-deductible health plans (HDHPs) who have Health Savings Accounts (HSAs), this also means they can receive these subsidized tests at no cost without having to meet their annual deductible first or use funds in their HSAs to pay for these tests. Of course, the test would have to be deemed medically appropriate to be covered.

And, in recognizing the importance of virtual health care during the current crisis, the CARES Act now allows HDHPs to cover some or all of the costs of telehealth and other remote care services before participants have reached their deductibles.

While these provisions should last until the pandemic crisis is over, not all HDHPs subsidize virtual health care services. Contact your company’s benefits administrator to find out what your plan covers.

Where to start

Which CARES Act benefits should you take advantage of right now? Using your HSA or FSA to pay for over-the-counter medication is pretty much a no-brainer. But some of the other strategies could significantly impact your tax situation as well as your retirement savings strategy. That’s why you may want to seek advice from a tax professional or a fee-only Certified Financial Planner professional. Unlike other advisers who are paid commissions for selling products, these financial experts are paid only by you, so you can rest assured that you’ll receive objective, unbiased guidance with no hidden agendas.

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