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Tax Filing Extension, CARES Act, & Market Update

So much has happened over the past two weeks that we wanted to send out a brief summary of the key developments regarding the tax filing and payment extension, the CARES Act, and the markets. We will be **hosting a webinar to further discuss these items this Thursday, April 2 at 2 PM MDT**. You will be sent a follow up email to register for the webinar.

Tax Filing and Payment Extension to July 15th

As most of you have probably heard by now, the 2020 Federal tax payment and filing deadline has been moved from April 15th to July 15th. At least 37 of the 50 states, including Utah, have also moved their payment and filing deadlines to July 15th. The following link has information on each state as of 3/30/2020. The filing extension also applies to the deadline for 2019 Roth and Traditional IRA contributions.

https://www.aicpa.org/content/dam/aicpa/advocacy/tax/downloadabledocuments/coronavirus-state-filing-relief.pdf

CARES Act

The CARES Act, which was signed into law on Friday, March 27, 2020, provides fiscal stimulus to individuals and businesses to help the economy survive through the government directed shutdown. In total, the bill provides over $2 Trillion of aid which included around $500 Billion for individual rebate checks, $500 Billion for support for several severely-damaged industries, around $400 Billion support for tax credits for wages and payroll tax relief, over $300 Billion of support for state and local governments, and over $150 Billion for support for hospitals and the health care system. We briefly describe the Act's key provisions below. Please note that by necessity we have included only high-level details on each provision in the nearly 900-page document in order to provide awareness. If you believe that any of these items may affect you and you have further questions, please reach out to us.

- **Recovery Rebates** – Rebates should hopefully be paid in the next three weeks as an advanced income tax credit for 2020 taxes. The credit is $1,200 per taxpayer ($2,400 for joint filers) plus $500 per qualifying child under 17. The credit phases by $50 for every $1,000 of AGI above $75k for individuals, $150k for joint filers, and $112.5k for head of household. The rebate is based on your 2019 tax return if you have already filed and if not on your 2018 tax return. If you are not eligible for the credit based on your last tax return filed but end up being eligible for the credit based on 2020 income you will still receive the credit when you file your 2020 tax return. If you would be eligible using your 2019 income (but not 2018) then make sure you file your 2019 tax return as soon as possible to give you the best chance of receiving the rebate.

  - It appears that individuals receiving Social Security benefits will receive their Recovery Rebate in the same account they receive their Social Security Benefits
  - The Treasury Department is also authorized to make Recovery Rebate payments to the account into which the taxpayer's most recent filed tax return (2018 or 2019) was deposited.
  - Other payments will be sent to the last known address on file
  - Takeaway: if eligible for this rebate, double check your address on your tax return on file and your bank account on your tax return to make sure no changes were made. If so, call the Rebate Recovery phone number that the IRS will be providing to make any necessary changes before payments are sent out.

- **Retirement Accounts (if impacted by Coronavirus)–** Several temporary changes were implemented for qualified retirement accounts if you were impacted by the Coronavirus (e.g. you, spouse or dependent diagnosed; adverse financial consequences; unable to work; other reason deemed reasonable by IRS):
  - No 10% penalty on withdrawals up to $100k for individuals under 59-1/2 (although withdrawal is still taxed as ordinary income)
  - No mandatory tax withholdings on withdrawals
  - May be eligible to repay any withdrawals anytime over next three years
  - If you do not repay withdrawal, may elect to spread income for tax purposes over three years
  - Max 401k loan increased to $100k or 100% of vested balance
  - 401k loan repayments on loans obtained between now and 12/31/2020 may be deferred for up to one year

- **Required Minimum Distribution Changes**
  - Required Minimum Distributions (RMDs) are waived in 2020 (thus providing the potential to save taxes) and you may be eligible to return any RMDs already received in 2020 to your retirement account

    - Minimum Required Contributions for single employer plans in 2020 are delayed until 2021

- **Paycheck Protection Loan** (500 Employees or less except for certain industries)
    - **Amount** - Maximum of $10 Million or 2.5x avg monthly payroll cost over previous year excluding employees with compensation amounts over $100k
    - **Forgiveness** - Amount spent in first 8 weeks after receipt on payroll, rent, utilities, and group health insurance may be forgiven
    - Must maintain the same number of employees
    - Forgiven debt will not be considered income for tax purposes
    - Max interest rate is 4%
    - Loan payments may be deferred for up to 6-12 months
      https://www.sba.gov/disaster-assistance/coronavirus-covid-19

- **Economic Injury Disaster Advance Loan** - Loan advance of up to $10,000 available within three days of successful application. May not have to be repaid.
  https://covid19relief.sba.gov/#/

- **Unemployment Compensation**
    - Up to 39 weeks of assistance extended to self-employed and other individuals normally ineligible for regular unemployment
    - First week of unemployment covered (normally it is not)
    - Compensation increased by up to max $600 per week for up to 4 months (avg weekly payments are $400 so this is a large increase)
    - Compensation extended for 13 weeks (in addition to maximum amount of weeks typically provided by state law)
    - Federal Gov't to subsidize states who create short-term compensation programs (this provides help to those whose hours and income have been reduced but are still employed and ineligible for unemployment compensation)

- **Charitable Contributions**
    - Above-the-line cash charitable deduction up to $300 for 2020 (versus as a below the line possible itemized deduction)
    - Adjusted Gross Income (AGI) limits on charitable contributions for 2020,
        - increased to 100% of AGI for individuals

        - 25% of taxable income for corporations
    - Food contribution limits raised to 25% of taxable income

- **Student Loans**
    - Student loan payments and interest are deferred until September 30, 2020
    - Months without payment still count towards loan forgiveness programs
    - Involuntary debt collections are suspended through September 30, 2020
    - Employers can exclude Student Loan Repayments from employee compensation up to $5,250

- **Housing**
    - Mortgages
        - Foreclosures on all federally backed mortgage loans on 1-4 unit properties are prohibited for 60 days
        - Borrowers may request forbearance on mortgage for up to 180 days with a possible additional 180-day extension (90 days for 5+ units)
    - Rent, Late Fees, and Evictions – if property has federally backed loan or participates in certain gov't programs, property owner cannot evict or charge late fees for non-payment of rent for next 120 days

- **Payroll tax credit refunds for required paid family leave and sick leave –** In a bill passed a week before the CARES Act, congress approved credits for wages paid to employees for family and sick leave due to COVID-19. The details of that bill can be found at the below link. The CARE Act allows for advanced funding of those credits and for the waiving of penalties on late payments if awaiting credit. https://www.journalofaccountancy.com/news/2020/mar/coronavirus-relief-bill-tax-credits-for-employers-23225.html.

- **Employee Retention Credit –** for companies that have been shut down or have quarterly revenue in 2020 of less than 50% of that received for same quarter in 2019 and have not received a paycheck protection loan.
    - Credit against employment taxes equal to 50% of qualified wages up to $10,000 per employee
    - Employers with more than 100 employees can only count employees being paid that are not able to work due to the shutdown or reduced revenue

- Employers with 100 or fewer employees can count all wages paid.

- **Deferral of Payroll Taxes –** for employers who have not had debt forgiven by CARES act, 50% of 2020 employer payroll taxes are deferred with half of the amount deferred due Dec 31, 2021 and the other half due Dec 31, 2022. This applies to the employer equivalent portion of self-employment taxes as well.

- **Net operating losses** – Corporate net operating losses can temporarily offset up to 100% of income (instead of current limit of 80%) and can be carried back up to five years.

- **Excess loss limitations** – Individual taxpayers' losses attributable to businesses were limited to $250k single filer and $500k joint. This limit has been repealed for 2018, 2019, and 2020.

- **Corporate alternative minimum tax (AMT) –** the AMT credit for corporations was made a refundable credit for 2018 tax year.

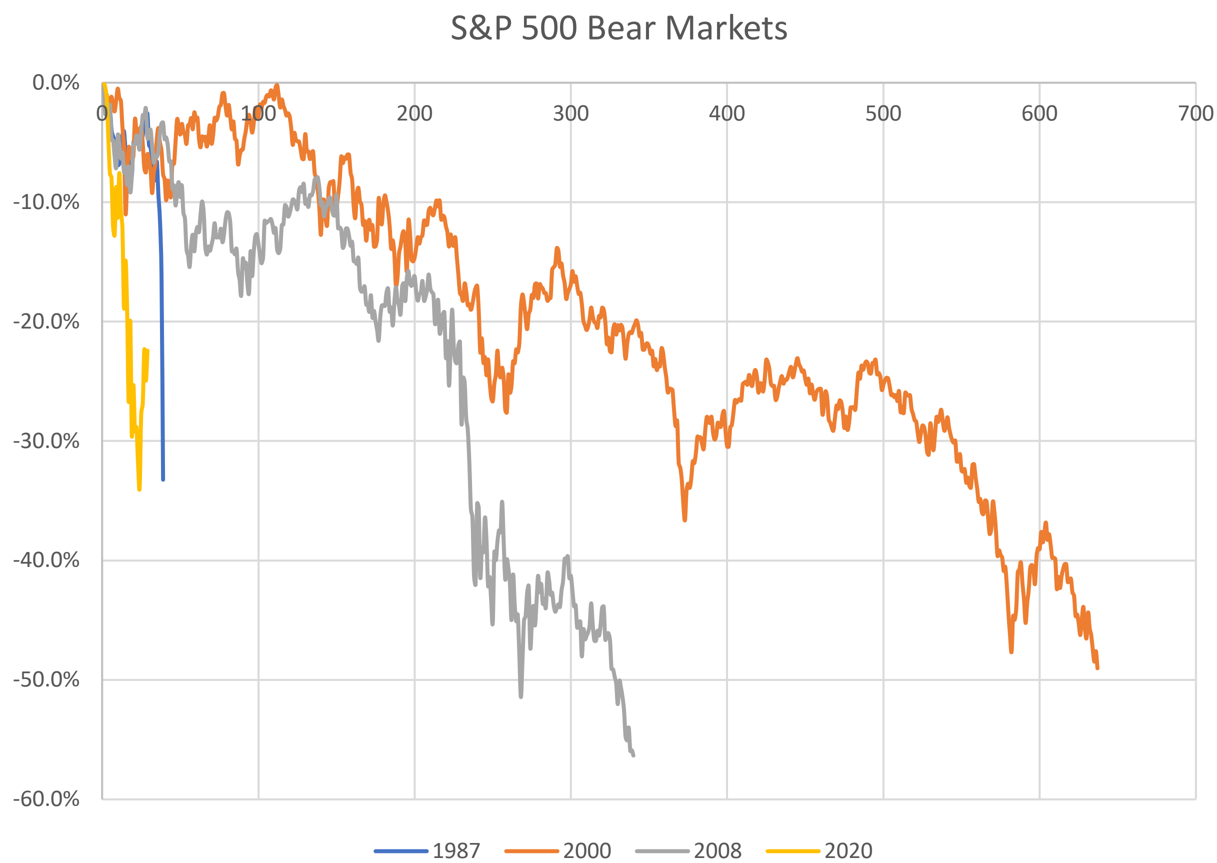
- **Business Interest Expense limitation** – For 2019 and 2020, Sec. 163(j) is amended to increase the adjusted taxable income percentage from 30% to 50%. Also, taxpayers can elect to use 2019 income in place of 2020 for the computation.

- **Aviation taxes** – Various aviation excise taxes are suspended until 2021.

- **Healthcare**
    - Medicare beneficiaries eligible to receive COVID-19 vaccine when available
    - Medicare Part D recipients can request 90-day supply of prescription drugs
    - High-deductible health plans (HDHPs) can cover telehealth and other remote care services prior to reaching deductible.
    - Health Savings Accounts can be used to buy certain over-the-counter health products.
    - Rules for providing telehealth services are relaxed

Market Update

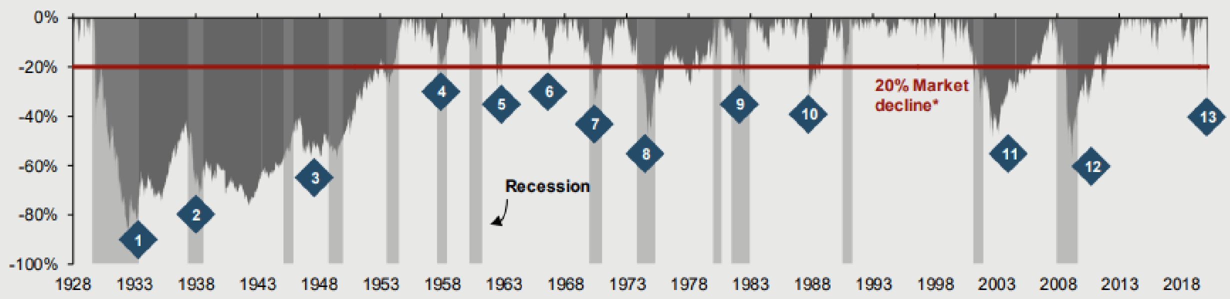
The S&P 500 officially entered a bear market, which is a drop of 20% or more from a recent market high, on March 12. On that one day alone, the S&P 500 dropped in value by 9.5%. The yellow line in the following chart shows the S&P 500 performance since its most recent market high on February 19th compared to the three prior bear markets. It took only 17 trading days to go from all-time high to down 20% which was significantly faster than any of the previous three.



As of market close on March 23rd, the S&P 500 was down 34% from its all-time high, which ranks as the 7th worst bear market since 1929, just ahead of the 1987 crash. In the 5 trading days since, in response to the expected monetary and fiscal stimulus from the United States and other countries, the S&P 500 has increased over 17% from its low and is now only 22% below its value on Feb 19th.

Given that we entered a bear market, many of us may be asking how long will this last and how far will the stock market fall. The following chart shows all 13 bear markets going back to 1929 along with the subsequent bull markets that followed. The average total drop from high to low for the 13 bear markets was 42% with a range of 22% to 86%. The average number of months it took for the market to drop from its high to its low was 22-months with a range of 3 months to 61 months.

U.S. recessions and S&P 500 composite declines from all-time highs



Characteristics of bull and bear markets

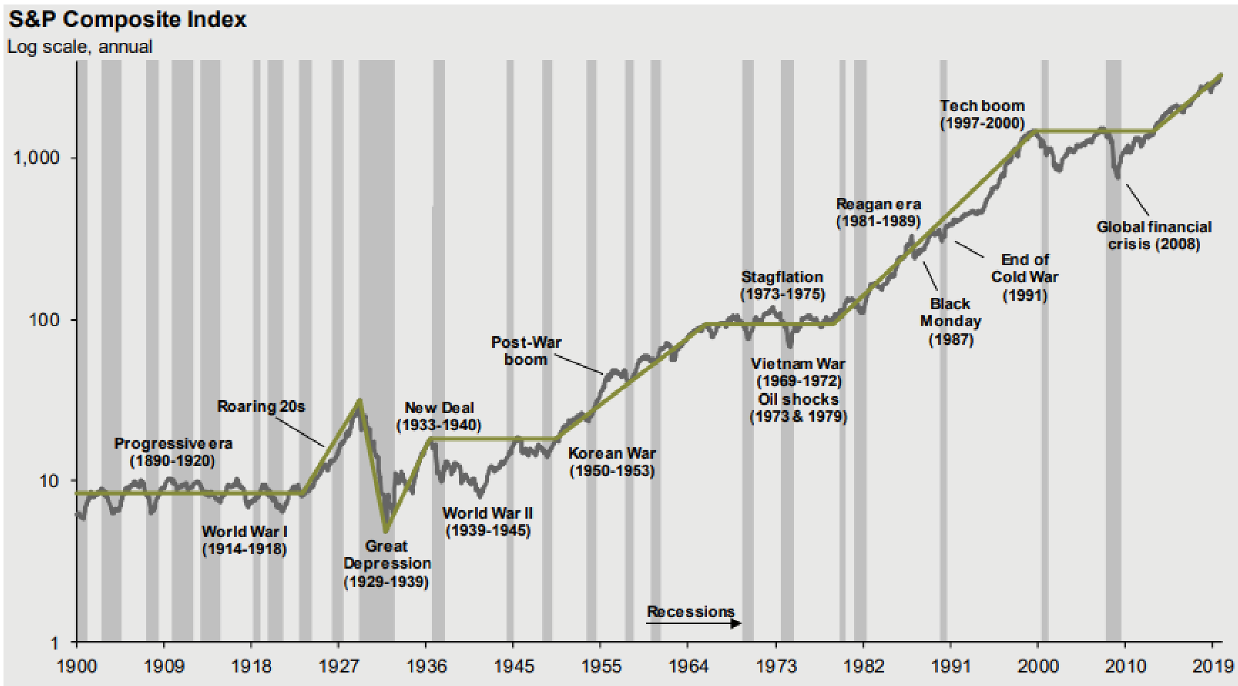
	Market correction	Bear Market			Macro environment				Bull markets		
		Market peak	Bear return*	Duration (months)*	Recession	Commodity Spike	Aggressive Fed	Extreme Valuation	Bull begin date	Bull return	Duration (months)
1	Crash of 1929 - Excessive leverage, irrational exuberance	Sep 1929	-86%	32	◆			◆	Jul 1926	152%	37
2	1937 Fed Tightening - Premature policy tightening	Mar 1937	-60%	61	◆		◆		Mar 1935	129%	23
3	Post WWII Crash - Post-war demobilization, recession fears	May 1946	-30%	36	◆			◆	Apr 1942	158%	49
4	Eisenhower Recession - Worldwide recession	Aug 1956	-22%	14	◆		◆	◆	Jun 1949	267%	85
5	Flash Crash of 1962 - Flash crash, Cuban Missile Crisis	Dec 1961	-28%	6				◆	Oct 1960	39%	13
6	1966 Financial Crisis - Credit crunch	Feb 1966	-22%	7			◆	◆	Oct 1962	76%	39
7	Tech Crash of 1970 - Economic overheating, civil unrest	Nov 1968	-36%	17	◆	◆	◆		Oct 1966	48%	25
8	Stagflation - OPEC oil embargo	Jan 1973	-48%	20	◆	◆			May 1970	74%	31
9	Volcker Tightening - Whip Inflation Now	Nov 1980	-27%	20	◆	◆	◆		Mar 1978	62%	32
10	1987 Crash - Program trading, overheating markets	Aug 1987	-34%	3				◆	Aug 1982	229%	60
11	Tech Bubble - Extreme valuations, .com boom/bust	Mar 2000	-49%	30	◆			◆	Oct 1990	417%	113
12	Global Financial Crisis - Leverage/housing, Lehman collapse	Oct 2007	-57%	17	◆	◆	◆		Oct 2002	101%	60
13	Global Slowdown - COVID-19, oil price war	Feb 2020	-22%	1	◆				Mar 2009	401%	132
	Averages	-	**-42%**	**22**					-	**166%**	**54**

Source: FactSet, NBER, Robert Shiller, Standard & Poor's, J.P. Morgan Asset Management.
*A bear market is defined as a 20% or more decline from the previous market high. The related market return is the peak to trough return over the cycle. Periods of "Recession" are defined using NBER business cycle dates. "Commodity spikes" are defined as movement in oil prices of over 100% over an 18-month period. Periods of "Extreme Valuations" are those where S&P 500 last 12 months' P/E levels were approximately two standard deviations above long-run averages, or time periods where equity market valuations appeared expensive given the broader macroeconomic environment. "Aggressive Fed Tightening" is defined as Federal Reserve monetary tightening that was unexpected and/or significant in magnitude. Bear and Bull returns are price returns.
Guide to the Markets – U.S. Data are as of March 30, 2020.

J.P.Morgan
Asset Management

As bad as these market sell offs feel as we live through them, it is helpful to look back over time to put them in perspective. The following chart shows the value over time of the S&P 500 going back to 1900. When you look at 120 years' worth of data, it shows that most of the previous bear markets are relatively small blips on an upward trend.

We do not know whether March 23rd marked the bottom of the S&P 500 for now and whether we should expect to stay above that level for the rest of the year or if a new low will be set. If countries around the world are not able to limit the spread and death rate of COVID-19 and the resultant impact of shutting down their economies to contain the disease is worse than expected, we could certainly see stock prices drop further.



Source: FactSet, NBER, Robert Shiller, J.P. Morgan Asset Management.
Data shown in log scale to best illustrate long-term index patterns. Past performance is not indicative of future returns. Chart is for illustrative purposes only.
Guide to the Markets – U.S. Data are as of March 30, 2020.

J.P.Morgan
Asset Management

Even though China is reporting that they have effectively contained the spread of the virus, the rest of the world is still in the exponential growth phase of the disease with various projections as to when the spread may peak. This creates continued uncertainty in the near term.

However, in the long-term we are confident that we will find solutions that allow us to return to work, school, and travel. For now, we are working with our clients to rebalance your accounts, tax loss harvest, put new money to work and potentially do Roth IRA conversions if it makes sense.

Thank you for your trust in us. We hope you can join us for the webinar on Thursday for additional detail.