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James V Sadrianna PA April 2020 Newsletter

Table of Contents

The $2 trillion emergency relief package represents a bipartisan effort intended to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis.

CARES Act Provides Relief to Individuals and Businesses

On Friday, March 27, 2020, the Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law. This $2 trillion emergency relief package is intended to assist individuals and businesses during the ongoing coronavirus pandemic and accompanying economic crisis. Major relief provisions are summarized here.

Unemployment provisions

The legislation provides for:

- An additional $600 weekly benefit to those collecting unemployment benefits, through July 31, 2020
- An additional 13 weeks of federally funded unemployment benefits, through the end of 2020, for individuals who exhaust their state unemployment benefits
- Targeted federal reimbursement of state unemployment compensation designed to eliminate state one-week delays in providing benefits
- Unemployment benefits through 2020 for many who would not otherwise qualify, including independent contractors and part-time workers

Recovery rebates

Most individuals will receive a direct payment from the federal government. Technically a 2020 refundable income tax credit, the rebate amount will be calculated based on 2019 tax returns filed (2018 returns in cases where a 2019 return hasn't been filed) and sent automatically via check or direct deposit to qualifying individuals. To qualify for a payment, individuals generally must have a Social Security number and must not qualify as the dependent of another individual.

The amount of the recovery rebate is $1,200 ($2,400 if married filing a joint return) plus $500 for each qualifying child under age 17. Recovery rebates are phased out for those with adjusted gross income (AGI) exceeding $75,000 ($150,000 if married filing a joint return, $112,500 for those filing as head of household). For those with AGI exceeding the threshold amount, the allowable rebate is reduced by $5 for every $100 in income over the threshold.

Rebate Amounts and Phaseout Ranges

Filing Status	Payment Amount	Phaseout Threshold	Phaseout Completed
Married Filing Jointly	$2,400	$150,000	$198,000
+ 1 Child	$2,900	$150,000	$208,000
+ 2 Children	$3,400	$150,000	$218,000
Head of Household	$1,200	$112,500	$136,500
+ 1 Child	$1,700	$112,500	$146,500
+ 2 Children	$2,200	$112,500	$156,500
All Others	$1,200	$75,000	$99,000

While details are still being worked out, the IRS will be coordinating with other federal agencies to facilitate payment determination and distribution. For example, eligible individuals collecting Social Security benefits may not need to file a tax return in order to receive a payment.

Retirement plan provisions

- Required minimum distributions (RMDs) from employer-sponsored retirement plans and IRAs will not apply for the 2020 calendar year; this includes any 2019 RMDs that would otherwise have to be taken in 2020
- The 10% early-distribution penalty tax that would normally apply to distributions made prior to age 59½ (unless an exception applies) is waived for retirement plan distributions of up to $100,000 relating to the coronavirus; special re-contribution rules and income inclusion rules for tax purposes apply as well
- Limits on loans from employer-sponsored retirement plans are expanded, with repayment delays

provided

Student loans

- The legislation provides a six-month automatic payment suspension for any student loan held by the federal government; this six-month period ends on September 30, 2020
- Under already existing rules, up to $5,250 in payments made by an employer under an education assistance program could be excluded from an employee's taxable income; this exclusion is expanded to include eligible student loan repayments an employer makes on an employee's behalf before January 1, 2021

Business relief

- An employee retention tax credit is now available to employers significantly impacted by the crisis and is applied to offset Social Security payroll taxes; the credit is equal to 50% of qualified wages up to a certain maximum
- Employers may defer paying the employer portion of Social Security payroll taxes through the end of 2020 and may pay the deferred taxes over a two-year period of time; self-employed individuals are able to do the same
- Net operating loss rules expanded
- Deductibility of business interest expanded
- Provisions relating to specified Small Business Administration (SBA) loans increase the federal government guarantee to 100% and allow small businesses to borrow up to $10 million and defer payments for six months to one year; self-employed individuals, independent contractors, and sole proprietors may qualify for loans

Prior legislative relief provisions

Signed into law roughly two weeks prior to the CARES Act, the Families First Coronavirus Response Act (FFCRA) also included relief provisions worth noting:

- Requirement that health plans cover COVID-19 testing at no cost to the patient
- Requirement that employers with fewer than 500 employees generally must provide paid sick leave to employees affected by COVID-19 who meet certain criteria, and paid emergency family and medical leave in other circumstances
- Payroll tax credits allowed for required sick leave as well as family and medical leave paid

There is likely to be a steady stream of guidance forthcoming with details relating to many of these provisions, so stay tuned for more information. We're here to help and to answer any questions you may have.

Tax deadline for most individuals:

- *Wednesday,* ***July 15, 2020***

Due Date for Federal Income Tax Returns and Payments Postponed to July 15

Due to the coronavirus pandemic, the due date for filing federal income tax returns and making tax payments has been postponed by the IRS from Wednesday, April 15, 2020, to Wednesday, July 15, 2020. No interest, penalties, or additions to tax will be incurred by taxpayers during this 90-day relief period for any return or payment postponed under this relief provision.

The relief applies automatically to all taxpayers, and they do not need to file any additional forms to qualify for the relief. The relief applies to federal income tax payments (for taxable year 2019) and estimated tax payments (for taxable year 2020) due on April 15, 2020, including payments of tax on self-employment income. There is no limit on the amount of tax that can be deferred.

Note: *Under this relief provision, no extension is provided for the payment or deposit of any other type of federal tax, or for the filing of any federal information return.*

Need more time?

If you're not able to file your federal income tax return by the July due date, you can file for an extension by the July due date using IRS Form 4868, Application for Automatic Extension of Time to File U.S. Individual Income Tax Return. Filing this extension gives you an additional three months (until October 15, 2020) to file your federal income tax return. You can also file for an automatic three-month extension electronically (details on how to do so can be found in the Form 4868 instructions). There may be penalties for failing to file or for filing late.

Filing for an extension using Form 4868 does not provide any additional time to pay your tax. When you file for an extension, you have to estimate the amount of tax you will owe and pay this amount by the July filing due date. If you don't pay the amount you've estimated, you may owe interest and penalties. In fact, if the IRS believes that your estimate was not reasonable, it may void your extension.

Tax refunds

The IRS encourages taxpayers seeking a tax refund to file their tax return as soon as possible. Apparently, most tax refunds are still being issued within 21 days of the IRS receiving a tax return.

A 60-day period, for now

The Department of Education may extend the 60-day interest waiver and administrative forbearance period that began on March 13, 2020, depending on the status of the COVID-19 national emergency.

Federal Student Loan Borrowers Get Some Relief Due to COVID-19

On March 20, 2020, the Department of Education announced terms for student loan relief for tens of millions of borrowers in response to COVID-19.[1] Here are answers to some questions about the new rules. For more information and to follow subsequent potential rule modifications, visit the federal student aid website.

Does the relief apply to all student loan borrowers?

No. Only borrowers with outstanding federal student loans—not private student loans—are eligible. In addition, only federal student loans owned by the Department of Education are eligible. This includes Direct Loans (which includes PLUS Loans), as well as Federal Perkins Loans and Federal Family Education Loan (FFEL) Program loans held by the Department of Education. (Note: some FFEL Program loans are owned by commercial lenders, and some Perkins Loans are held by educational institutions. These loans are not eligible for relief at this time.)

What specific relief is being offered?

There are two parts to this relief:

Interest waiver: All borrowers with eligible federal student loans will automatically have their interest rates set to 0% for a period of at least 60 days beginning March 13, 2020. The Department of Education may extend this period, depending on the status of the COVID-19 national emergency at the end of the 60-day period.

Suspension period: In addition, borrowers will have the *option* to temporarily suspend their student loan payments. This administrative forbearance period will last for at least 60 days from March 13, 2020. Again, the Department of Education may extend this period depending on the status of the COVID-19 national emergency after the 60-day period is up.

Will a borrower's monthly payment go down because interest is being waived?

No. A borrower's monthly payment will remain the same. During the period of no interest, the full amount of a borrower's payment will be applied to outstanding principal after all the interest that accrued before March 13, 2020 is paid.

Is the 60-day suspension of student loan payments automatic?

No. Borrowers will have to proactively request a forbearance with their loan servicer. All federal loan servicers are required to grant an administrative forbearance to any borrower who requests one. If the 60-day period for an administrative forbearance is extended by the Department of Education, borrowers will be contacted by their loan servicer who will communicate information about any extension.

For borrowers who request a forbearance, loan servicers are responsible for cancelling any scheduled automatic debit payments. At the end of the forbearance period, borrowers will have to re-institute automatic debit payments; they will not automatically resume.

Note: Borrowers who are at least 31 days behind on their payment as of March 13, 2020, or borrowers who become more than 31 days delinquent after that date, will be automatically placed in the administrative forbearance to give them a safety net during the COVID-19 national emergency.

How can borrowers contact their loan servicer?

Borrowers should contact their loan servicer online or by phone. For borrowers who do not know who their servicer is or how to contact them, they can visit studentaid.gov/login or call 1-800-4-FED-AID for assistance.

Can borrowers keep paying their federal student loans?

Yes. Borrowers are still able to continue their student loan payments as usual and do not need to contact anyone if they wish to keep making payments.

What should borrowers do i f they have experienced a change in income ?

Borrowers who have experienced a change in income (whether from COVID-19 or another reason) can

contact their loan servicer to discuss other options for pausing or lowering their monthly payment. Specifically, traditional deferment and forbearance options can allow borrowers to temporarily stop making monthly loan payments (typically for a period up to six months), while different loan repayment plans may result in a lower monthly payment.

Borrowers who already have an income-driven repayment plan can ask to have their monthly payment recalculated at any time. They should contact their loan servicer for more information.

1) U.S. Department of Education, March 20, 2020; studentaid.gov

If you are losing sleep over volatility driven by a cascade of disheartening news, it may help to remember that the stock market is historically cyclical.

Bear Markets Come and Go

The longest bull market in history lasted almost 11 years before coronavirus fears and the realities of a seriously disrupted U.S. economy brought it to an end.

If you are losing sleep over volatility driven by a cascade of disheartening news, it may help to remember that the stock market is historically cyclical. There have been 10 bear markets (prior to this one) since 1950, and the market has recovered eventually every time.

Bear markets are typically defined as declines of 20% or more from the most recent high, and bull markets are increases of 20% or more from the bear market low. But there is no official declaration, so in some cases there are different interpretations regarding when these cycles begin and end.

On average, bull markets lasted longer (1,955 days) than bear markets (431 days) over this period, and the average bull market advance (172.0%) was greater than the average bear market decline (-34.2%).

Bear Markets Since 1950	Calendar Days to Bottom	U.S. Stock Market Decline (S&P 500 Index)
August 1956 to October 1957	446	-21.5%
December 1961 to June 1962	196	-28.0%
February 1966 to October 1966	240	-22.2%
November 1968 to May 1970	543	-36.1%
January 1973 to October 1974	630	-48.2%
November 1980 to August 1982	622	-27.1%
August 1987 to December 1987	101	-33.5%
July 1990 to October 1990	87	-19.9%*
March 2000 to October 2002	929	-49.1%
October 2007 to March 2009	517	-56.8%

*The intraday low marked a decline of -20.2%, so this cycle is often considered a bear market.

The bottom line is that neither the ups nor the downs last forever, even if they feel as though they will. During the worst downturns, there were short-term rallies and buying opportunities. And in some cases, people have profited over time by investing carefully just when things seemed bleakest.

If you're reconsidering your current investment strategy, a volatile market is probably the worst time to turn your portfolio inside out. Dramatic price swings can magnify the impact of a wholesale restructuring if the timing of that move is a little off. A well-thought-out asset allocation and diversification strategy is still the fundamental basis of good investment planning. Changes in your portfolio don't necessarily need to happen all at once. Try not to let fear derail your long-term goals.

The return and principal value of stocks fluctuate with changes in market conditions. Shares, when sold, may be worth more or less than their original cost. Asset allocation and diversification are methods used to help manage investment risk; they do not guarantee a profit or protect against investment loss.

The S&P 500 is an unmanaged group of securities that is considered to be representative of the U.S. stock market in general. The performance of an unmanaged index is not indicative of the performance of any specific investment. Individuals cannot invest directly in an index. Past performance is not a guarantee of future results. Actual results will vary.

Source: Yahoo! Finance, 2020 (data for the period 6/13/1949 to 3/12/2020)

Handling Market Volatility

Conventional wisdom says that what goes up, must come down. But even if you view market volatility as a normal occurrence, it can be tough to handle when it's your money at stake.

Though there's no foolproof way to handle the ups and downs of the stock market, the following common sense tips can help.

Don't put your eggs all in one basket

Diversifying your investment portfolio is one of the key ways you can handle market volatility. Because asset classes often perform differently under different market conditions, spreading your assets across a variety of different investments such as stocks, bonds, and cash alternatives (e.g., money market funds and other short-term instruments), has the potential to help manage your overall risk. Ideally, a decline in one type of asset will be balanced out by a gain in another, though diversification can't guarantee a profit or eliminate the possibility of market loss.

One way to diversify your portfolio is through asset allocation. Asset allocation involves identifying the asset classes that are appropriate for you and allocating a certain percentage of your investment dollars to each class (e.g., 70 percent to stocks, 20 percent to bonds, 10 percent to cash alternatives). A worksheet or an interactive tool can suggest a model or sample allocation based on your investment objectives, risk tolerance level, and investment time horizon, but your strategy should be tailored to your unique circumstances.

Focus on the forest, not on the trees

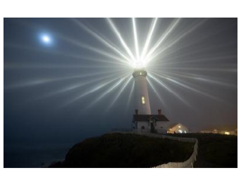
As the markets go up and down, it's easy to become too focused on day-to-day returns. Instead, keep your eyes on your long-term investing goals and your overall portfolio. Although only you can decide how much investment risk you can handle, if you still have years to invest, don't overestimate the effect of short-term price fluctuations on your portfolio.

Look before you leap

When the market goes down and investment losses pile up, you may be tempted to pull out of the stock market altogether and look for less volatile investments. The small returns that typically accompany low-risk investments may seem downright attractive when more risky investments are posting negative returns.

But before you leap into a different investment strategy, make sure you're doing it for the right reasons. How you choose to invest your money should be consistent with your goals and time horizon.

For instance, putting a larger percentage of your investment dollars into vehicles that offer safety of principal and liquidity (the



opportunity to easily access your funds) may be the right strategy for you if your investment goals are short-term or if a long-term goal such as retirement has now become an immediate goal. But if you still have years to invest, keep in mind that although past performance is no guarantee of future results, stocks have historically outperformed stable value investments over time. If you move most or all of your investment dollars into conservative investments, you've not only locked in any losses you might have, but you've also sacrificed the potential for higher returns.

Look for the silver lining

A down market, like every cloud, has a silver lining. The silver lining of a down market is the opportunity you have to buy shares of stock at lower prices.

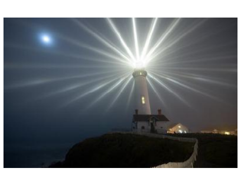
One of the ways you can do this is by using dollar cost averaging. With dollar cost averaging, you don't try to "time the market" by buying shares at the moment when the price is lowest. In fact, you don't worry about price at all. Instead, you invest the same amount of money at regular intervals over time. When the price is higher, your investment dollars buy fewer shares of stock, but when the price is lower, the same dollar amount will buy you more shares. Although dollar cost averaging can't guarantee you a profit or protect against a loss, over time a regular fixed dollar investment may result in an average price per share that's lower than the average market price, assuming you invest through all types of markets. A workplace savings plan, such as a 401(k) plan in which the same amount is deducted from each paycheck and invested through the plan, is one of the most well-known examples of dollar cost averaging in action. Please remember that since dollar cost averaging involves continuous investment in securities regardless of fluctuating price levels of such securities, you should consider your financial ability to make ongoing purchases.

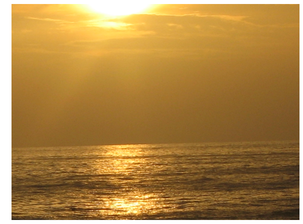
Don't count your chickens before they hatch

As the market recovers from a down cycle, elation quickly sets in. If the upswing lasts long enough, it's easy to believe that investing in the stock market is a sure thing. But, of course, it never is. As many investors have learned the hard way, becoming overly optimistic about investing during the good times can be as detrimental as worrying too much during the bad times. The right approach during all kinds of markets is to be realistic. Have a plan, stick with it, and strike a comfortable balance between risk and return.

Don't stick your head in the sand

While focusing too much on short-term gains or losses is unwise, so is ignoring your investments. You should check up on your portfolio at least once a year, more frequently if the market is particularly volatile or when there have been significant changes in your life. You may need to rebalance your portfolio to bring it back in line with your investment goals and risk tolerance, or redesign it so that it better suits your current needs. Don't hesitate to get expert help if you need it when deciding which investment options are right for you.





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