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Insights

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The CARES Act Explained

Although the CARES Act's $2 trillion allocation to the economy has been compared to President Obama's 2009 American Recovery and Reinvestment Act, the more recent measure should be thought of as a relief effort, rather than economic stimulus. CARES is addressing the immediate fallout in the business world and in peoples' personal finances, an attempt to cushion the impact of social distancing and the loss of work and business that it entails.

The big picture perspective is that the CARES Act allocates $150 billion to enhance hospital capacity, a $500 billion loan fund for businesses in distress and $150 billion in direct support to state and local governments to help fight the coronavirus epidemic.

On top of that, the government will be cutting checks directly to individuals. The IRS will look at your 2019 tax returns (or 2018 if it can't find a 2019 filing) and send $1,200 to single filers with adjusted gross income below $75,000; $2,400 to joint filers with AGI below $150,000. The government will add $500 for each dependent under the age of 17. These benefits will phase out at higher income levels (you lose $5 for every $100 in income above the threshold), until they reach zero for a single filer with no children and an adjusted gross income of $99,000. It has been estimated that three-quarters of tax filers will qualify for aid, and that the total amount of all those checks will reach $507 billion.

Some people who did not file a 2018 or 2019 tax return because they earned less than the standard deduction might qualify otherwise; for example, for people who receive Social Security benefits, the government will determine their eligibility for a check based on their Form SSA-1099, Social Security Benefit Statement.

But many others will be left out of the distribution. Individuals without Social Security numbers are also excluded—leaving out Dreamers and families of filers with only Individual Taxpayer Identification Numbers. Dependents over the age of 17 (including cared-for parents and disabled children) are also not eligible for the direct payment.

Some workers will find the CARES Act's expansion of unemployment insurance more helpful, financially. The Act expands the duration of unemployment insurance benefits by 13 weeks, and increases payments by $600 per week for four months. It makes so-called 'gig economy' workers and the self-employed eligible for unemployment benefits for the first time.

Finally, there are some tax provisions which were intended to help individuals weather this financial storm. This year, individuals under age 59 1/2 will be able to take out IRA or other retirement plan funds without the normal 10% penalty that would otherwise apply. If they take a "Coronavirus-Related Distribution," they will have up to three years to repay that distribution back into the retirement account. Otherwise, taxpayers can elect to spread the income from that Coronavirus-Related Distribution over a three-year period, or include it in their 2020 income.

The CARES Act also declared a moratorium on taking required minimum distributions from IRAs and other plans, and people who took a distribution this year will be allowed to return the money to their tax-deferred account. However, people who inherited IRAs and already took distributions are not eligible to return the money back into the account.

Meanwhile, people who took out Federal student loans will be allowed to suspend payments through September 30, and no interest will accrue on this debt. And all involuntary debt collections are suspended for the same period, including wage garnishment or the reduction of tax refunds.

Finally, participants in Health Savings Accounts, Archer Medical Savings Accounts and Healthcare Flexible Spending Accounts will be allowed to use these assets to buy over-the-counter medications—something that was not permitted before.

There are, of course, a number of other provisions, including credits for small business to encourage them to maintain their payroll, deferral (but not elimination) of the employer match on FICA taxes, and the carryforward rules on net operating losses for corporations (other than REITs). The CARES Act is going to be pored over in detail in the coming weeks and months, but for now, let's hope that it provides some economic relief during one of the most difficult periods in our financial lives.

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The Teleworking Revolution

One of the biggest economic impacts of the Covid-19 epidemic is not the second quarter economic decline, but the longer-term ways it could transform our global economy—potentially for the better. The world has been forced to go digital on an unprecedented scale, and more companies are now accepting a teleworking environment that many have resisted over the years. We are all experimenting with potentially a more efficient work modality, and it's possible that we—workers and corporations—won't ever go back.

A study by Global Workplace Analytics found that 3.6% of the U.S. workforce has been working from home half time or more before the crisis—and you can see from the graph that the numbers are pretty evenly distributed. But more interestingly, the analysts estimated that 56% of employees have a job where at least some of what they do could be done remotely, and 89% of employees wanted to work from home at least some of the time.

This is remarkably good news for today's current economic activity. Economists may be assuming that work throughout the American economy will grind to a halt as we practice social distancing. These statistics suggest that in many companies, a high percentage of the essential work will get done via telework even if the offices are empty.

Among the advantages of teleworking: workers don't have to spend as much time commuting to work, and therefore they can (theoretically) devote more time both to their jobs and to enhanced leisure time. Their travel costs go down, and they experience greater work time flexibility to take care of family in emergencies.

On the corporate side, when a high percentage of the staff is working remotely, it forces management to define clear objectives that need to be accomplished, rather than a nebulous "face-time" environment that prioritizes simply being in the office. Meetings, which can be terrific time-wasters, are cut back as people are assigned projects and held accountable for completing them. And, of course, teleworking can also reduce a company's infrastructure costs: it reduces the need for office space, consumption of electricity, heating and computer equipment.

One field that might see significant permanent change is education. Schools and universities have been forced to close their doors, which in the past would have meant an extended vacation for students, teachers and professors. Today it means online coursework at the university level, and K-12 teachers organizing reading and homework assignments which are submitted virtually. At the more advanced level, a company called Ahura AI has found that online training can be significantly accelerated by algorithms that analyze users' real-time frustrations and distractions, and adjust the lesson plan or degree of difficulty on the fly. Will colleges find ways to incorporate these insights into English, Business or Biology curricula?

The digital experiment we are going through now is going to give all of us a look at our teleworking options, and revise everybody's assumptions about the benefits and drawbacks of digital work technologies. As telework and remote education go mainstream during the social distancing period, the result could be a new balance between in-person and at-home workplaces that might make our economy more efficient and productive.

-Bob Veres

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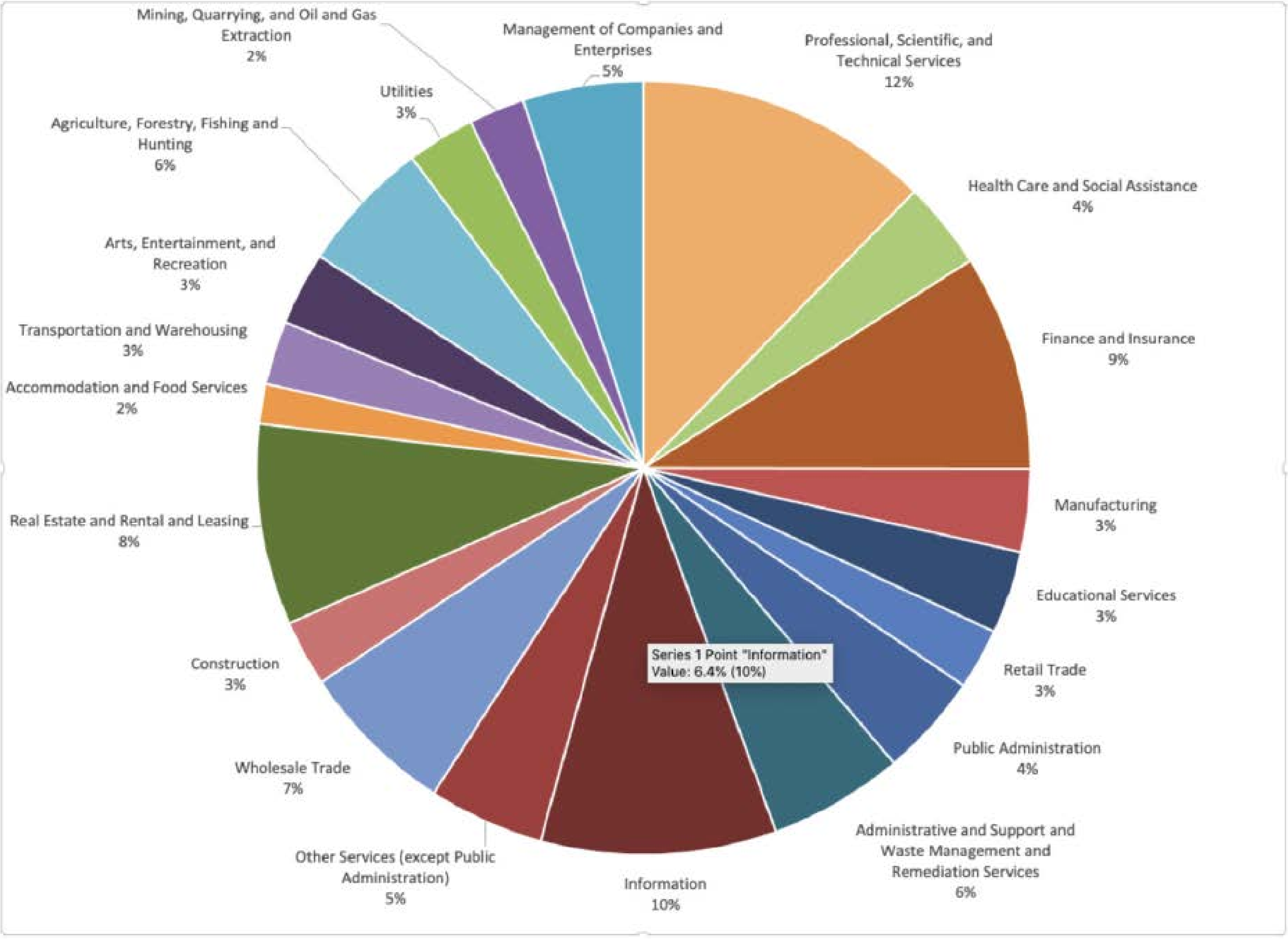

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