US Supports Individuals and Households in Response to COVID-19

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Original post here.

The $2.2 trillion CARES Act, which the US Congress passed on March 27, 2020, provides direct payments to individuals, temporarily expands unemployment insurance, and eases restrictions on withdrawing money from retirement accounts for those affected by the coronavirus. The government also offered mortgage forbearance to certain households and extended the tax filing deadline. These policies specifically provide support to individuals and households during the COVID-19 crisis.

Direct payments

One of the most widely publicized aspects of the CARES Act is the $290 billion allocated for direct payments to eligible residents of the country. The Economic Impact Payments represent 13% of the stimulus in the Act and 1.5% of 2019 GDP. The one-time payment allots $1,200 for eligible adult tax filers and recipients of Social Security and railroad retirees who are not required to file a return.

The payments begin to taper at an adjusted gross income of $75,000 ($150,000 per couple) and reach zero at $99,000 ($198,000 per couple). The $75,000 threshold represents approximately 120% of the median US income. Parents are eligible for up to $500 extra for each dependent child under age 17. The Internal Revenue Service (IRS) will directly deposit the funds to eligible individuals for whom they have bank account information. It is developing an online system to allow individuals to provide this information outside of a tax filing. The IRS will mail checks to individuals for whom it has no bank account information, if it can locate a physical address. Individuals who did not file a return for 2018 or 2019 have until the end of the year to do so in order to receive the payment. The IRS is developing a simplified form for those who otherwise are not required to file. Social Security recipients, however, will generally not have to file as the IRS will rely on Social Security data for their information.

Unemployment Insurance

The CARES Act supplements state unemployment benefits with an additional $600 on top of the state's weekly benefit. Based on an average 40-hour work week, this equates to an average per hour benefit of at least $15. The temporary expansion also allows individuals to claim an additional 13 weeks of benefits, on top of the standard 26 weeks.

In the US, the state and federal governments jointly fund unemployment insurance, and states administer it. The level of benefits differs across states. As of February 2020, benefits range from $215 in Mississippi to $550 in Massachusetts and average $387 per week nationally. The duration of benefits also varies, with most states offering benefits for 26 weeks. During the Global Financial Crisis, the government extended the number of weeks individuals could claim benefits multiple times.

The Act extends coverage to those otherwise ineligible for state benefits, such as self-employed individuals and gig-economy workers. It also extends benefits to workers who left their jobs for a specific COVID-19-related reason and who can't telework or take paid leave. These two groups are eligible for a benefit equal to the state unemployment benefit plus the $600 per week top-up. The federal government will fully fund the benefit for up to 39 weeks.

Retirement Accounts

For people impacted by COVID-19, the CARES Act temporarily waives the income-tax withholding requirement and temporarily waives the income-tax withholding requirement and the 10 percent tax penalty for early withdrawals from retirement accounts. Individuals who withdraw early from their retirement account savings can repay the withdrawal back into a retirement account over a period of three years or pay income taxes on the withdrawal over a period of three years. This provision allows individuals to tap into their retirement savings without penalty.

Mortgage Forbearance

Both individuals with single-family mortgages and landlords with multifamily mortgages are eligible for mortgage forbearance. Individuals are entitled to 180 days with a one-time extension for another 180 days. Landlords can request forbearance for 30 days and two extensions for 30 additional days each.

Mortgage servicers may not foreclose on loans during the 60-day period beginning March 18. Vacant properties are exempt from the policy. Similarly, no tenant residing in a federally-subsidized housing or in housing covered by a federally-backed mortgage loan can be evicted during the 120-day period beginning March 27.

Finally, the act provides that creditors who accommodated borrowers for making late payments must report these obligations as “current” until the later of 120 days after enactment of the CARES Act or 120 days after the end of the national emergency concerning COVID-19.

The federal government or government-sponsored entities generally bear the cost of these programs. However, given that an increasing number of mortgages are serviced by nonbank servicers, the industry has asked authorities to create a liquidity facility to finance the policies.

Tax filing and payment extensions

On March 18, the IRS said it will allow individuals to defer income tax payments due on April 15 until July 15. The intervention followed the President’s emergency declaration on March 13. The IRS said it considered all taxpayers with payments due on April 15 to be adversely affected by the pandemic. Under the policy, taxpayers can postpone payments of up to $1,000,000 regardless of their filing status.

The stimulus in the CARES Act is funded via deficit spending; offsets or other funding mechanisms are not included.