



COVID-19 UPDATE | MARCH 27, 2020

EXTENSIVE TAX RELIEF MEASURES PASSED FOR INDIVIDUALS AND BUSINESSES IN CORONAVIRUS AID, RELIEF, AND ECONOMY SECURITY (CARES) ACT

On March 25, 2020, The Senate unanimously passed The Coronavirus Aid, Relief, and Economic Security (CARES) Act, a historic legislation that will provide \$2 trillion in aid to help the economy as it suffers from the effects of the coronavirus pandemic. Today, March 27, 2020, the US House passed the CARES Act and President Trump signed it into law.

The CARES Act is the largest economic relief bill in U.S. history. Among many other legislative changes, the CARES Act includes several important tax relief measures for both individuals and businesses.

Individual Tax Relief

- **Recovery Rebates**

Under the bill, taxpayers will receive “Recovery Rebate” payments. These payments will be treated as advance refunds of a 2020 tax credit to individual taxpayers.

- Individuals will receive a tax credit of \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child.
- The credit starts to phase out for taxpayers with adjusted gross income (AGI) above \$150,000 (for joint filers), \$112,500 (for heads of household), and \$75,000 for other individuals.
- The credit is not available to nonresident aliens, individuals who can be claimed as a dependent by another taxpayer, and estates and trusts.

- **Retirement Plans**

Eligible taxpayers can take up to \$100,000 in coronavirus-related distributions from retirement plans from January 1, 2020 until December 31, 2020 without being subject to additional tax or required minimums for early distributions. Eligible distributions may be repaid within three years.

- An eligible taxpayer is one who has been diagnosed with SARS-CoV-2 virus or COVID-19 disease; spouse or dependent has been diagnosed with SARS-CoV-2 virus or COVID-19 disease; experiences adverse financial consequences from being quarantined, furloughed, or laid off; had his or her work hours reduced; or is unable to work due to lack of child care.
- Any resulting income inclusion can be included into income evenly over three years.
- The bill also allows loans of up to \$100,000 from qualified plans, and repayment can be delayed.
- Required minimum distribution requirements are temporarily suspended and do not apply for certain calendar year 2020 defined contribution retirement plans and/or individual retirement plan accounts.

- **Charitable Deductions**

The bill enhances tax incentives for making charitable contributions for the 2020 tax year.

- The bill allows an above-the-line deduction of up to \$300 for charitable contributions made by individuals in 2020.
- It modifies the AGI limitations on cash charitable contributions for 2020, to 100% of AGI for individuals and 25% of taxable income for corporations.

- The bill also increases the donation of food inventory contribution taxable income limits to 25% as opposed to 15%.
- **Student Loans Paid by Employers**
The bill provides for an exclusion of up to \$5,250 from income for payments of an employee's education loans. In order to be eligible, the loan must have been incurred for the education of the employee (not for their child, for example). The payment can be made to the employee, or directly to the lender. The exclusion only applies to payments made between enactment and January 1, 2021. To prevent a double-benefit, student loan payments for which the income exclusion is allowed will not be allowed a student loan interest deduction.

Business Tax Relief

- **Payroll Tax Credit Refunds**
The bill will allow businesses to receive an advance refund of the payroll tax credits enacted last week in the Families First Coronavirus Response Act.
 - Credits for required paid sick leave or FMLA can be refunded in advance using forms provided by the IRS.
 - The IRS is instructed to waive any penalties for failure to deposit payroll taxes if the failure was due to an anticipated payroll tax credit.
- **Employee Retention Credit**
The bill creates an employee retention credit for employers that have seen a full or partial reduction of business due to the coronavirus pandemic.
 - Eligible employers are those who were carrying on a trade or business during 2020, which has been fully or partially suspended due to the COVID-19 outbreak.
 - Employers whose gross receipts are less than 50% of their gross receipts for the same quarter in the prior year are also eligible, until their gross receipts exceed 80% of their gross receipts for the same calendar quarter in the prior year.
 - Eligible employers may take a credit against employment taxes equal to 50% of qualified wages (up to \$10,000 in wages) for each employee.
 - For employers with more than 100 employees, wages eligible for the credit are wages paid to employees who are not providing services due to the suspension of the business or a drop in gross receipts.
 - For employers with 100 or fewer employees, all wages paid qualify for the credit.
 - Credit can be claimed on a quarterly basis, but the amount of wages (including health benefits) that can be claimed is limited to \$10,000 in aggregate per employee for all quarters.
 - The credit applies to wages paid after March 12, 2020 and before January 1, 2021.
 - The credit is not available to employers receiving Paycheck Protection Loans, described below.
- **Paycheck Protection Loans for Small Businesses**
Eligible businesses with fewer than 500 employees can apply for loans up to \$10 million through the Small Business Administration (SBA) to support payroll (including paid sick and family and medical leave); employee salaries; mortgage, rent and utility payments; insurance premiums; and other debt obligations. Certain borrowers would be eligible for partial loan forgiveness.
- **Payroll Tax Delay**
The bill also delays payment of employer payroll taxes, beginning on the date that the CARES Act is signed into law and ending on December 31, 2020. The entirety of payroll taxes incurred by employers, and 50 percent of payroll taxes incurred by self-employed persons qualify for the deferral.

Half of the deferred payroll taxes are due on December 31, 2021, with the remainder due on December 31, 2022. This payroll tax delay does not apply to businesses that have indebtedness forgiven as part of the Paycheck Protection Loans described earlier.

- **Net Operating Losses**

The bill temporarily allows for a five-year carryback of net operating losses (NOLs) arising in 2018, 2019, or 2020.

- Businesses will be able to amend or modify tax returns for tax years dating back to 2013 in order to take advantage of the carryback.
- The bill also eliminates loss limitation rules applicable to non-corporate taxpayers (i.e. individuals) to allow them to take advantage of the loss carryback rules.

- **Corporate Alternative Minimum Tax (AMT)**

The bill modifies the corporate alternative minimum tax (AMT) credit to make it a 100% refundable credit beginning in 2019, or provide for the ability to elect to claim 100% of the AMT credit in 2018.

- **Interest Expense Limitation**

The amount of allowable deductions for business interest is generally the amount of business interest income for the year, plus 30% of the taxpayer's adjusted taxable income for the year. For tax years beginning in 2019 and 2020, the adjusted taxable income percentage has been increased from 30% to 50%.

- **Bonus Depreciation Technical Correction**

- The bill provides a technical correction to the Tax Cuts and Jobs Act (TCJA) and specifically designates "qualified improvement property" as 15-year property for depreciation purposes, which makes the improvement eligible for 100% bonus depreciation in the year the property is placed into service.

- **Additional Provisions**

The CARES Act also includes:

- Excise tax relief for alcohol used in hand sanitizer related to the pandemic.
- Suspension of Aviation taxes until 2021.
- A safe harbor for High Deductible Health Plans allowing telehealth and other remote care services to be performed without a deductible.
- Pension funding relief for failure to meet contribution requirements in 2020.
- Allowing certain charitable employers whose primary exempt purpose is providing services to mothers and children to use small employer charity pension plan rules.

The tax relief measures presented in the CARES Act are complex and designed to help American taxpayers and businesses as we face these difficult economic times. CRR's team is ready to assist you in navigating these changes, please don't hesitate to contact us at info@crrcpa.com with any questions you may have.