2020 CARES ACT

What it means for your business.

Presented by

Tony Deutsch, CPA, MST, CGMA

STRATEGY | EXECUTION | RESULTS

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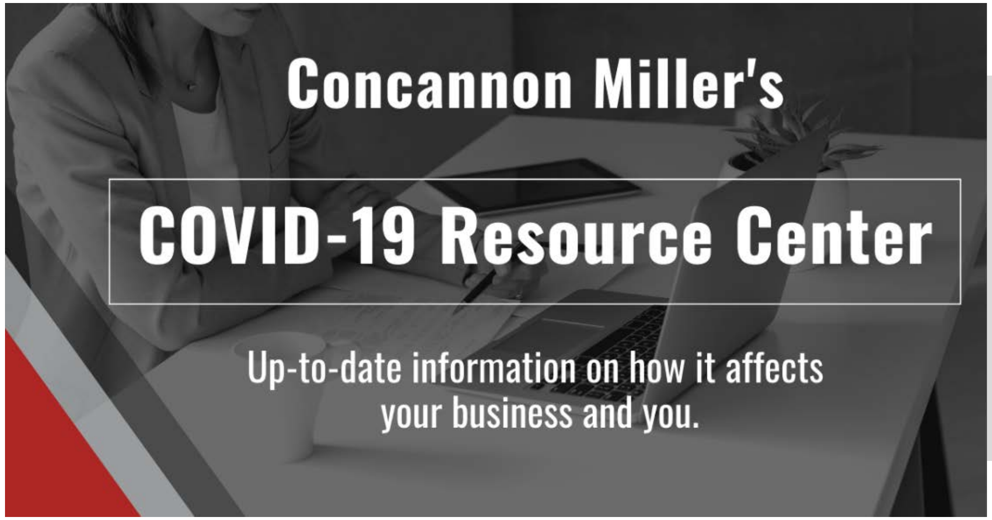

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Qualified Improvement Property - Technical Correction

- Reduces depreciable life of QIP (improvement made to interior portion of nonresidential building after building placed in service) to 15 years form 39 years
  - 15-year life makes QIP eligible for bonus depreciation
  - Change retroactive to 2018

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Qualified Improvement Property- Technical Correction (Cont'd)

- If a taxpayer placed QIP assets in service in 2018 they can do one of the following that is the most beneficial:
  - Go back, amend the 2018 tax return and take the bonus deprecation,
  - File a Form 3115 in 2019 to request a change in accounting method with the IRS and depreciate over 15 years going forward, and catch up all the prior depreciation that would have been allowed in the prior year, including the bonus depreciation, or
  - File a 3115 for 2019 or a subsequent year.

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Net Operating Loss Carryovers

- Allows 5-year carryback for NOL's generated in 2018, 2019 or 2020.
  - A 2018 NOL can be carried back to 2013
  - Losses not carried back can be carried forward indefinitely.
- Losses carried to 2019 and 2020 can be used to offset 100% of taxable income in those years.
  - Consider State Rules - may not follow the Federal Rules
  - Consider the other tax considerations for the Carryback;
    - Change in AGI and impact on other limitations
    - Business Interest limitations
    - Excess Business Loss Limitations
    - QBI exclusion
    - Others

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Net Excess Business Losses

- The ordering rules for loss deductions are at follows:
  - Tax Basis Limitation
  - Tax Basis must be Risk-Basis
  - Passive Losses limited to passive income
  - Net Business Losses
- Net Business Losses are limited to $250K Single/$500K MFJ – 2017 TCJA
- The CARES Act removes this limitation for taxpayers (other than corporations) for tax years 2018, 2019 & 2020.

Note- when limits resume in 2021, wages will no longer be considered business income.

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Business Interest Limitations under Sec. 163(j)

- For businesses OTHER THAN Partnerships, the SECURE Act increases limit from for the deduction of business interest from 30% to 50% of Adjusted Taxable Income (ATI) for 2019 & 2020
  - Adjusted Taxable Income equals:
    - Taxable Income without business interest income or expense
    - NOL Deductions
    - Section 199A QBI Deduction
    - Depreciation, amortization or depletion expense
    - Capital losses
    - Floor Plan financing interest expense
  - For purposes of computing the limit on 2020 returns, the taxpayer has the option of using 2019 ATI

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Business Interest Limitations under Sec. 163(j) (cont'd)

- Partnerships:
  - For 2019, any amount of business interest limited by the 30% of ATI is passed out to partners and suspended at the partner level under the normal rules.
    - Note, however, in 2020, 50% of the suspended interest becomes fully deductible.
    - The remaining 50% continues to be suspended until able to be used under the normal rules.

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State Tax Provisions

Check the AICPA website for a listing of all the changes that have been implemented by each state as a result of the numerous Federal Changes being made.

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Due Dates for Filing Income Tax Returns and Making Income Tax Payments

- The IRS postponed to **July 15, 2020** the due date for both filing a return and for making income tax payments due April 15, 2020.
- The postponement is automatic; no Form 4868 or Form 7004 is required.
- Payments that may be postponed are limited to federal income tax payments in respect of a taxpayer’s 2019 taxable year and federal estimated income tax payments due on April 15, 2020 for a taxpayer’s 2020 taxable year.
- The period from April 15, 2020 to July 15, 2020 will be disregarded in the calculation of interest, penalty, or addition to tax for failure to file returns or pay taxes.

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Recovery Rebates

- Eligible individuals are allowed a credit of $1,200 ($2,400 for joint filers), plus $500 for each qualifying child, for 2020.
- An eligible individual is any individual who has a Social Security number and who is not a nonresident alien, an individual who can be claimed as a dependent on another taxpayer’s return, or an estate or trust.

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Recovery Rebates (cont'd)

- The allowable credit is reduced by 5% of the eligible individual's adjusted gross income in excess of:
  - $75,000 (all filers other than joint and head of household),
  - $112,500 (head of household), or
  - $150,000 (joint filers).
    - The credit phases out entirely at $99,000 ($198,000 for joint filers).
  - Payment based on AGI from 2019 return; or 2018, if 2019 not yet filed
    - Payment may be made via direct deposit, if bank information provided on 2018/2019 returns
    - If no 2018 or 2019 return filed, any taxpayer receiving Social Security will be assumed to be eligible for payment

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Recovery Rebates (cont'd)

- People who typically do not file a tax return will need to file a simple tax return to receive an economic impact payment. Low-income taxpayers, senior citizens, Social Security recipients, some veterans and individuals with disabilities who are otherwise not required to file a tax return will not owe tax.
- Actual amount taxpayer is eligible for will be "trued-up" with filing of 2020 return.
  - If, based on 2020 return, taxpayer is eligible for additional amount, that amount will be treated as credit on 2020 return.
  - No requirement to pay back if true-up on 2020 return winds up being less than amount received

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Retirement Provisions & RMD Rules

- The deadline for making 2019 prior-year contributions to traditional and Roth IRAs are extended from April 15 to July 15, 2020.
  - State filing deadlines vary by state.
- For 2020 only, the 10% penalty on retirement plan distributions prior to age 59 ½ will be waived for “coronavirus-related distributions” of up to $100,000.

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Retirement Provisions & RMD Rules (cont'd)

- The following distributions will be considered "coronavirus-related":
  - If individual is diagnosed with SRS-COV-2 or COVID-19 by a test approved by the FDC,
  - If individual's spouse is diagnosed with either of the above two diseases, or
  - The individual experiences adverse financial consequences as a result of being quarantined, furloughed or laid off or having hours reduced, or unable to work due to lack of childcare.

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Retirement Provisions & RMD Rules (cont’d)

- Distribution amount can be included in income over 3 years, beginning with 2020.
  - Taxpayer can avoid income recognition be repaying the distribution to the retirement plan within 3 years of receiving it (treated as a tax-free direct rollover within 60 days).
    - It is unclear at this point if repayment after the taxable year in which a distribution was include in income would result in the need for an amended return to remove the amount previously included in income.

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Retirement Provisions & RMD Rules (cont'd)

- Plan Loans:
  - First, the law increases the maximum amount of plan loans to the lesser of $100,000 (reduced by other outstanding loans) or 100% of the account balance. (The usual limit is the lesser of $50,000, reduced by other outstanding loans, or 50% of the account balance.) This rule applies to loans taken within 180 days from the bill's date of enactment.
  - Second, any loan repayments normally due between date of enactment and December 31, 2020 could be suspended for one year.

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Retirement Provisions & RMD Rules (cont’d)

- Required Minimum Distributions (RMD’s)- the RMD requirement is waived for any distributions previously required during 2020.
  - 2019 RMDs having a required beginning date of April 1, 2020. Any 2019 RMD amount remaining and not withdrawn by January 1, 2020 is waived.

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Certified Public Accountants Business Consultants

Concannon Miller & Co.

Tony Deutsch, CPA, MST, CGMA
Shareholder, Tax Services
tdeutsch@concannonmiller.com

Lainie Smith, CPA, MST
Tax Manager
lsmith@concannonmiller.com

1525 Valley Center Pkwy, Suite 300
Bethlehem, PA 18017
888-433-1515

9800 Fourth St., North, Suite 300
St. Petersburg, FL 33702
800-272-2733