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CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY ACT (CARES ACT)

INDIVIDUAL TAX PROVISIONS

The Novel Coronavirus has had a huge impact all over the world. People in quarantine are forced to stay home, kids are now homeschooled, and businesses are closed. To help Americans get through this crisis, the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) was signed into effect on March 27, 2020. The Act provides a $2 trillion support relief package to help stabilize the American economy. Below are some major individual tax provisions found in the CARES Act.

- **Individual Recovery Credit**

  Eligible individuals are allowed an income tax credit for 2020 of $1,200 ($2,400 for joint filers) plus $500 for each qualifying child. An eligible individual cannot be a nonresident alien, someone who can be claimed as a dependent by another taxpayer, or an estate or trust.

  Credit is reduced by 5% of the taxpayer's adjusted gross income (AGI) in excess of (1) $150,000 for a joint return,

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(2) $112,500 for a head of household, and (3) $75,000 for all other taxpayers. For taxpayers without children, it phases out entirely at $99,000 for single filers and $198,000 for joint filers.

Eligible individuals will receive advance rebate payments from the IRS in 2020. The advance rebate will reduce the credit allowed for 2020. Therefore, taxpayers do not have to wait until the filing of 2020 income tax return to receive the benefit. The IRS will determine the amount of rebate based on 2019 returns or 2018 returns if 2019 returns have not been filed. IRS will mail notification to a taxpayer's last known address indicating how much the rebate is with an IRS contact phone number within 15 days after the rebate has been issued.

- **Special Rules Related to Retirement Plans**

Early distribution of up to $100,000 from a qualified retirement plan due to coronavirus is not subject to 10% excise tax. Income attributed to such distributions are subject to income tax over three years. Coronavirus-related distributions can be contributed back to the retirement plan at any time during a 3-year period starting on the day after such distribution was received.

A coronavirus-related distribution is any distribution made on or after January 1, 2020, and before December 31, 2020, from an eligible retirement plan made to a qualified individual. A qualified individual is an individual:

1. who is diagnosed with COVID-19 or SARS-CoV-2 by a test approved by the CDC,
2. whose spouse or dependent is diagnosed by such virus stated in (1), or
3. who experiences adverse financial consequences as a result of of the virus or disease such as:
    a. being quarantined;
    b. being furloughed, laid off, or having work hours reduced;
    c. being unable to work due to lack of child care;
    d. closing or reducing hours of a business owned or operated by the individual;
    e. other factors as determined by the Secretary of the Treasury.

Individuals are allowed to borrow money from their qualified retirement plan. The maximum amount of loan allowed is increased from $50,000 to $100,000. The increase applies to loans made within 180 days from the date of the enactment of the CARES Act. For outstanding loans, repayment dates between the date of enactment of the Act and December 31, 2020 are delayed for one year.

The Required Minimum Distributions (RMD) requirement is waived for 2020 by the Act.

- **Modification of Limitation on Certain Cash Donation Deductions**

Previously, charitable deductions for cash donations were subject to a 60% AGI limitation. The CARES Act removes the percentage limitation for cash donations made in 2020 to organizations described in IRC 170(b)(1)(A) charities (i.e., 501(c)(3) and other charitable organizations). Donations made to donor advised funds and certain private foundations do not qualify. An Election must be made for this provision to apply. In the case of a partnership or S corporation, this election is made at the individual partner or shareholder level.

- **Above-the-line Charitable Deduction**

Individual taxpayers who do not itemize can take an above-the-line deduction of up to $300 for cash donations made in 2020 to organizations described in IRC 170(b)(1)(A) as charities. Donations made to donor advised funds, and certain private foundations do not qualify.

- **Student Loan Repayment Paid by Employer Excluded from Income**

  Employer-provided education payments can be excluded from an employee's gross income up to $5,250 per year. The CARES Act expands the definition of such education payments to include student loan repayment made before January 1, 2021. However, the total annual limit stays at $5,250. Deduction of student loan interest is not allowed for amounts excluded from income under such provision.

- **Modification of Limitation of Losses for Noncorporate Taxpayers**

  Previously, noncorporate taxpayers were not allowed to deduct excess business losses for tax years beginning after December 31, 2017 and ending before January 1, 2026. Excess business loss is defined as the excess of (1) the taxpayer's aggregate business deductions for the year over (2) the sum of the taxpayer's aggregate business gross income or gain plus $250,000 (adjusted for inflation). The CARES Act temporarily removes the excess business loss limitations for noncorporate taxpayers for tax years beginning after December 31, 2017, and before January 1, 2021.

  The CARES Act also made a technical amendment to IRC 461(l)(3) thereby allowing capital gains attributable to a trade or business to be included in business income in determining excess business loss limitation. This will have an impact when the temporary lift of excess business loss limitation expires for tax year beginning after December 31, 2020.

  KROST Insight
  With the removal excess business loss deduction, business owners should consider applying strategy such as cost segregation to accelerate deduction.

Author: So Sum Lee, CPA

Do you need assistance determining which provisions apply to your situation? We can help. Contact KROST today for consulting on the CARES Act. Visit our COVID-19 Resource page for more tools to help you during this difficult time.