

The CARES Act

Important provisions you need to know

The recently passed Coronavirus Aid, Relief, and Economic Security Act (The CARES Act) includes some very helpful tax relief for businesses and individuals. Key provisions are summarized below.

The JTaylor team is proactively working with our clients to ensure they receive maximum benefit from this legislation's

economic relief provisions. Because this is new legislation, further authoritative guidance is needed to address the wide range of taxpayer circumstances. Be assured that we are closely monitoring and working with such guidance. In the meantime, if you have any questions regarding the application of this legislation, please do not hesitate to contact us.

Businesses

Employee Retention Credit

- Refundable payroll tax credit for qualified wages paid to employees (March 13, 2020 to December 31, 2020)
- Eligible for either:
 - Businesses with fully or partially suspended operations (by order of an appropriate governmental authority due to COVID-19)
 - Businesses with gross receipts during any specific quarter in 2020 that are less than 50% of the amount in the same quarter of 2019
 - This applies to any quarter in 2020 until a business has gross receipts that are greater than 80% of the amount in the corresponding quarter in 2019
- Credit is equal to 50% of the qualifying wages paid to each employee for the quarter, not to exceed \$10,000 for all quarters
 - Qualifying wages are up to \$10,000 per employee
 - If business has greater than 100 employees:
 - Only wages paid to employees who did not work are eligible for the credit
 - Employees' wages and qualified health expenses may be included in the calculation.
 - If business has under 100 employees:
 - Employer receives credit regardless of whether employees work or not
 - Employees' wages and qualified health expenses may be included in the calculation
- If SBA loan taken due to COVID-19, not eligible for Employee Retention Credit
- Unable to receive double benefit from Employee Retention Credit and Families First Coronavirus Recovery Act (FFCRA) Payroll Tax Credit

Employer Payroll Tax Deposits

- Delayed payment requirements for employer portion of Social Security payroll taxes on wages paid from March 27, 2020 to December 31, 2020
 - 50% must be deposited by December 31, 2021
 - Remaining 50% must be deposited by December 31, 2022

Section 163(j) – Business Interest Limitation

- With the Tax Cuts and Jobs Act (TCJA), business interest expense was limited to 30% of a business's Adjusted Taxable Income (ATI)
 - ATI threshold has now increased from 30% to 50% for 2019 and 2020
 - Taxpayers can elect to use 2019 ATI when computing 2020 limitation
 - For partnerships, the 30% threshold still applies for 2019. In 2020, 50% of any 2019 interest carryover is fully deductible. The remaining 50% will still be subject to the 30% threshold.

Qualified Improvement Property

- With TCJA, qualified improvements to the interior of nonresidential buildings were not eligible for bonus depreciation and were required to use a 39-year life. The CARES Act corrects this error and also allows for a recovery period of 15 years.
- This correction is retroactive to 1/1/2018

Student Loans

- Employer payments on employees' student loans up to \$5,250 are excludable from income to employee if paid before January 1, 2021.

Corporations

Net Operating Losses (NOLs)

- A 5-year carryback is allowed for losses from 2018, 2019 and 2020

Corporate Alternative Minimum Tax (AMT)

- Acceleration of refundable corporate AMT credit
 - Can elect to take entire amount in 2018

Charitable Contributions

- Increased eligible deduction from 10% to 25% of taxable income in 2020
 - This includes a food inventory charitable contribution increase from 15% to 25%

Individuals

Tax Return Filing & Payment Deadlines

- Due dates for 2019 income tax returns and associated payments as well as 1st quarter 2020 estimated tax payments have moved from April 15 to July 15, 2020
- 2nd Quarter 2020 ES Payment is still due June 15, 2020

Additional Tax Revisions or Modifications

- With TCJA, IRC § 461(l) limited net business losses to \$250,000 if Single or \$500,000 if Married Filing Joint
 - The application of this business loss deduction limitation has been delayed and will not take effect until 2021
 - This provision is retroactive to January 1, 2018 (can amend 2018 return if taxpayer was limited)
 - Going forward, wages will not be considered business income when calculating limitation
- Net Operating Losses (NOLs)
 - A 5-year carryback is allowed for losses from 2018, 2019 and 2020

- 80% TCJA NOL limitation has been removed for 2019 and 2020
- Charitable Deductions
 - Starting in 2020, qualifying charitable deductions of \$300 or less will now be an above-the-line deduction
 - Unable to both itemize and take charitable contribution as above-the-line deduction – taxpayer must choose one or the other
 - 2020 contributions are deductible up to 100% of taxpayer's AGI. Any excess contributions are given a 5-year carryover

Recovery Rebates

- Individuals: \$1,200
- Couples: \$2,400
- Additional \$500 per child
- Phaseouts begin at \$75,000 for individuals / \$150,000 for married filers

Retirement Withdrawal Rules

- For 2020, the 10% early withdrawal penalty is waived for distributions for COVID-19 purposes of up to \$100,000
 - Tax liability spread over 3 years if distributions less than \$100,000
 - If distribution is repaid within 3 years, corresponding tax liability is reduced to zero
- Required minimum distribution rules are waived for 2020
- Taxpayer can temporarily borrow up to \$100,000 from retirement plan
 - Eligible from March 27, 2020 to September 23, 2020

Trusts

Tax Return Filing & Payment Deadlines

- Due dates for 2019 income tax returns and associated payments as well as 1st quarter 2020 estimated tax payments have moved from April 15 to July 15, 2020
- 2nd Quarter 2020 ES Payment is still due June 15, 2020

Gift Tax Returns

Tax Return Filing & Payment Deadlines

- Form 709 due date has moved from April 15, 2020 to July 15, 2020

Additional Resources

CARES Act:

- <https://assets.documentcloud.org/documents/20059055/final-final-cares-act.pdf>

IRS:

- General Information: <https://www.irs.gov/coronavirus>
- FAQ regarding Notice 2020-18: <https://www.irs.gov/newsroom/filing-and-payment-deadlines-questions-and-answers>
- IR-2020-59 – People First Initiative: <https://www.irs.gov/newsroom/irs-unveils-new-people-first-initiative-covid-19-effort-temporarily-adjusts-suspends-key-compliance-program>

Disclaimer

JTaylor is a certified public accounting firm. Our professionals are not attorneys, and the information contained herein does not constitute legal advice. Our goal is to provide guidance to our clients as they seek to make decisions with regard to their businesses, using the best information available at this time. This is an area that continues to evolve, and we reserve the right to update any information contained herein as new information or guidance becomes available.

Because the facts and circumstances of each situation can be unique, particularly as applied to these new, complex provisions of federal legislation and associated interpretive guidance, we recommend seeking professional guidance before undertaking actionable steps in regard to these provisions.