

April 1, 2020

Dear Client:

We hope that you are keeping yourself, your loved ones, and your community safe from COVID-19 (commonly referred to as the Coronavirus). Along with those paramount health concerns, you may be wondering about some of the recent tax changes meant to help everyone coping with the Coronavirus fallout. We want to update you on the tax-related provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress's economic stimulus package that the President signed into law on March 27, 2020.

**Recovery rebates for individuals.** To help individuals stay afloat during this time of economic uncertainty, the government will send a payment of up to \$1,200 to eligible taxpayers and up to \$2,400 for married couples filing joint returns. An additional \$500 will be sent to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the child tax credit).

Rebates are gradually phased out, at a rate of 5% of the individual's adjusted gross income over \$75,000 (singles or marrieds filing separately), \$122,500 (head of household), and \$150,000 (joint). There is no income floor or "phase-in"—all recipients who are under the phaseout threshold will receive the same amounts. Tax filers must have provided, on the relevant tax returns or other documents (see below), Social Security Numbers (SSNs) for each family member for whom a rebate is claimed. Adoption taxpayer identification numbers will be accepted for adopted children. SSNs are not required for spouses of active military members. The rebates are not available to nonresident aliens, to estates and trusts, or to individuals who themselves could be claimed as dependents.

The rebates will be paid out in the form of checks or direct deposits. Most individuals won't have to take any action to receive a rebate. The IRS will compute the rebate based on a taxpayer's tax year 2019 return (or tax year 2018, if no 2019 return has yet been filed). If no 2018 return has been filed, IRS will use information for 2019 provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement.

Rebates are payable whether or not tax is owed. Thus, individuals who had little or no income, such as those who filed returns simply to claim the refundable earned income credit or child tax credit, qualify for a rebate.

**Waiver of 10% early distribution penalty.** The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) is waived for distributions made between January 1 and December 31, 2020, by a person who (or whose family) is infected with the Coronavirus or who is economically harmed by the Coronavirus (a qualified individual). Penalty-free distributions are limited to \$100,000, and may, subject to guidelines, be re-contributed to the plan or IRA. Income arising from the distributions is spread out over three years, unless the employee elects to turn down the spread out. Employers may amend defined contribution plans to provide for these distributions. Additionally, defined contribution plans are permitted additional flexibility in the amount and repayment terms of loans to employees who are qualified individuals.

**Waiver of required distribution rules.** Required minimum distributions that otherwise would have to be made in 2020 from defined contribution plans (such as 401(k) plans) and IRAs are waived. This includes distributions that would have been required by April 1, 2020, due to the account owner having turned age 70 1/2 in 2019.

**Charitable deduction liberalizations.** The CARES Act makes four significant liberalizations to the rules governing charitable deductions:

1. Generally, individuals will be able to claim a \$300 above-the-line deduction for cash contributions made to public charities in 2020. This rule effectively allows a limited charitable deduction to taxpayers claiming the standard deduction.
2. Generally, the limitation on charitable deductions for individuals that is generally 60% of modified adjusted gross income (the contribution base) doesn't apply to cash contributions made to public charities in 2020 (qualifying contributions). Instead, an individual's qualifying contributions, reduced by other contributions, can be as much as 100% of the contribution base. No connection between the contributions and COVID-19 activities is required.
3. Similarly, the limitation on charitable deductions for corporations that is generally 10% of (modified) taxable income doesn't apply to qualifying contributions made in 2020. Instead, a corporation's qualifying contributions, reduced by other contributions, can be as much as 25% of (modified) taxable income. No connection between the contributions and COVID-19 activities is required.
4. For contributions of food inventory made in 2020, the deduction limitation increases from 15% to 25% of taxable income for C corporations and, for other taxpayers, from 15% to 25% of the net aggregate income from all businesses from which the contributions were made.

**Exclusion for employer payments of student loans.** An employee currently may exclude \$5,250 from income for benefits from an employer-sponsored educational assistance program. The CARES Act expands the definition of expenses qualifying for the exclusion to include employer payments of student loan debt made before January 1, 2021.

**Break for remote care services provided by high deductible health plans.** For plan years beginning before 2021, the CARES Act allows high deductible health plans to pay for expenses for tele-health and other remote services without regard to the deductible amount for the plan.

**Break for nonprescription medical products.** For amounts paid after December 31, 2019, the CARES Act allows amounts paid from Health Savings Accounts and Archer Medical Savings Accounts to be treated as paid for medical care even if they aren't paid under a prescription. For reimbursements after December 31, 2019, the same rules apply to Flexible Spending Arrangements and Health Reimbursement Arrangements.

### **Business-only provisions**

*Employee retention credit for employers.* Generally, eligible employers can qualify for a refundable credit against the employer's 6.2% portion of the Social Security (OASDI) payroll tax (or against the Railroad Retirement tax) for 50% of certain wages (see below) paid to employees during the COVID-19 crisis.

The credit is available to employers carrying on business during 2020, including non-profits (but not government entities), whose operations for a calendar quarter have been fully or partially suspended as a result of a government order limiting commerce, travel, or group meetings. The credit is also available to employers who have experienced a more than 50% reduction in quarterly receipts, measured on a year-over-year basis relative to the corresponding 2019 quarter, with the eligible

quarters continuing until the quarter after there is a quarter in which receipts are greater than 80% of the receipts for the corresponding 2019 quarter.

For employers with more than 100 employees in 2019, the eligible wages are wages of employees who aren't providing services because of the business suspension or reduction in gross receipts described above.

For employers with 100 or fewer full-time employees in 2019, all employee wages are eligible, even if employees haven't been prevented from providing services. The credit is provided for wages and compensation, including health benefits, and is provided for the first \$10,000 in eligible wages and compensation paid by the employer to an employee. Thus, the credit is a maximum \$5,000 per employee.

Wages don't include:

1. Wages taken into account for purposes of the payroll credits provided by the earlier Families First Coronavirus Response Act for required paid sick leave or required paid family leave,
2. Wages taken into account for the employer income tax credit for paid family and medical leave (under Code Sec. 45S), or
3. Wages in a period in which an employer is allowed a work opportunity credit for an employee (under Code Sec. 51).

An employer can elect to not have the credit apply on a quarter-by-quarter basis.

The IRS has authority to advance payments to eligible employers and to waive penalties for employers who do not deposit applicable payroll taxes in reasonable anticipation of receiving the credit. The credit is not available to employers receiving Small Business Interruption Loans. The credit is provided for wages paid after March 12, 2020, through December 31, 2020.

*Delayed payment of employer payroll taxes.* Taxpayers (including self-employed) will be able to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022. Taxes that can be deferred include the 6.2% employer portion of the Social Security (OASDI) payroll tax and the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer 6.2% Social Security [OASDI] rate). The relief isn't available if the taxpayer has had debt forgiveness under the CARES Act for certain loans under the Small Business Act as modified by the CARES Act (see below). For self-employed, the deferral applies to 50% of the Self-Employment Contributions Act tax liability (including any related estimated tax liability).

*Net operating loss (NOL) liberalizations.* The 2017 Tax Cuts and Jobs Act (the 2017 Tax Law) limited NOLs arising after 2017 to 80% of taxable income and eliminated the ability to carry NOLs back to prior tax years. For NOLs arising in tax years beginning before 2021, the CARES Act allows taxpayers to carry back 100% of NOLs to the prior five tax years, effectively delaying, for carrybacks, the 80% taxable income limitation and carryback prohibition until 2021.

The CARES Act also temporarily liberalizes the treatment of NOL carryforwards. For tax years beginning before 2021, taxpayers can take an NOL deduction equal to 100% of taxable income (rather than the present 80% limit). For tax years beginning after 2021, taxpayers will be eligible for:

1. A 100% deduction of NOLs arising in tax years before 2018 and
2. A deduction limited to 80% of taxable income for NOLs arising in tax years after 2017.

The provision also includes special rules for REITs, life insurance companies, and the Code Sec. 965 transition tax. There are also technical corrections to the 2017 Tax Law effective dates for NOL changes.

*Technical correction to restore faster write-offs for interior building improvements.* The CARES Act makes a technical correction to the 2017 Tax Law that retroactively treats:

1. A wide variety of interior, non-load-bearing building improvements (qualified improvement property [QIP]) as eligible for bonus depreciation (and hence a 100% write-off) or for treatment as 15-year MACRS property or
2. If required to be treated as alternative depreciation system property, as eligible for a write-off over 20 years.

The correction of the error in the 2017 Tax Law restores the eligibility of QIP for bonus depreciation and, in giving QIP 15-year MACRS status, restores 15-year MACRS write-offs for many leasehold, restaurant, and retail improvements.

*Accelerated payment of credits for required paid sick leave and family leave.* The CARES Act authorizes the IRS to allow employers an accelerated benefit of the paid sick leave and paid family leave credits allowed by the Families First Coronavirus Response Act by, for example, not requiring deposits of payroll taxes in the amount of credits earned.

*Pension funding delay.* The CARES Act gives single employer pension plan companies more time to meet their funding obligations by delaying the due date for any contribution otherwise due during 2020 until January 1, 2021. At that time, contributions due earlier will be due with interest. Also, a plan can treat its status for benefit restrictions as of December 31, 2019, as applying throughout 2020.

*Certain SBA loan debt forgiveness isn't taxable.* Amounts of Small Business Administration Section 7(a)(36) guaranteed loans that are forgiven under the CARES Act aren't taxable as discharge of indebtedness income if the forgiven amounts are used for one of several permitted purposes. The loans have to be made during the period beginning on February 15, 2020, and ending on June 30, 2020.

**IRS information site.** Ongoing information on the IRS and tax legislation response to COVID- 19 can be found at [www.irs.gov/coronavirus](http://www.irs.gov/coronavirus).

For additional resources, please see our COVID-19 resource page at [www.mthnk.com/covid19](http://www.mthnk.com/covid19).

Please let us know if you have any questions about the above information or any other matters, related to COVID-19 or not.

Sincerely,

*Makela, Toutant, Hill, Nardi & Katona, P.C.*