

MEMORANDUM: CARES ACT REGARDING BUSINESS & INDIVIDUAL TAX PROVISIONS

To: Our Clients

From: Michael Di Pietro, CPA

Date: March 30, 2020

Subject: CARES ACT REGARDING BUSINESS & INDIVIDUAL TAX PROVISIONS

I. BUSINESS TAX PROVISIONS CARES ACT

The following summarizes the most significant aspects of the Act with regard to **business taxes**. I have not included everything since many of the provisions are technical and only apply to a small percentage of my clients.

REFUNDABLE PAYROLL TAX CREDIT

WHO IS ELIGIBLE: The act credits a **refundable** payroll tax for qualified wages paid from 3/13-12/31/2020?

This is only available to businesses who were fully or partially suspended due to a COVID-19 related shut down order, or

Where a business can demonstrate that there has been a decline of gross receipts of 50% or more compared to the same quarter in the prior year.

The refund (credit) is capped at the first \$10k compensation (including health benefits) paid to employees.

EMPLOYER SOCIAL SECURITY TAX DEFERMENT

Employers and self-employed individuals may defer payment of the employers share of (6.2%) of social security payroll tax (but not the Medicare tax (1.45%)) through tax year 2020. Amounts deferred must be repaid over two years:

- (1) 50% in 2021 and;
- (2) Balance in 2022.

NET OPERATING LOSSES (NOL'S)

NOL's arising in tax years 2018, 2019 and 2020 may be carried back 5 years (to the pre "Trump Tax Reform" years where tax rates were much higher). This can be a significant source of money for eligible clients. Also, the 80% of taxable income limitation is removed retroactively! This does not include capital losses.

AMT REFUNDABLE CREDITS

Refunds for AMT Credits

- Since the repeal of the corporate AMT, carryover AMT credits currently are refundable over several years, with the balance fully refundable in 2021.
- This provision accelerates the recovery time, enabling C corporation to obtain a refund of 50% in 2018 and the balance in 2019, unless the taxpayer elects to claim the entire refundable credit in 2018

DEPRECIATION BONUSES

Businesses will be able to utilize bonus depreciation and write off immediately costs associated with improving facilities instead of having to depreciate them over a 39-year period.

C-CORP CHARITABLE CONTRIBUTIONS

The C-corp limitation charitable contributions of 10% of net income has been increased to 25%

II. INDIVIDUAL TAX PROVISIONS

The Following summarizes the Act's legislation with regard to individuals

REBATES

All United States residents with a valid social security number are eligible for a \$1,200 rebate (\$2,400 for married couples) and an additional rebate of \$500 per child based upon the following:

- Payments will be based upon 2019 tax returns (if filed) or 2018 tax return's (if 2019 is not filed) and;
- Whose AGI was \$75,000 or less for single taxpayers, \$150,000 or less for married tax payers and \$112,500 or less for head of household and;
- There will be a phase out of the rebate of the \$5 for every \$100 above the income limits.

EXPAND UNEMPLOYMENT BENEFITS

- Unemployment compensation expanded and increased
- Extra \$600/week
- Extended to 39 weeks (from a typical 26 weeks)
- No waiting requirement
- Payable retroactive to January 27, 2020
- If you have to leave your job due to taking care of someone with COVID-19, you can collect

SELF EMPLOYED & INDEPENDENT CONTRACTORS

- Self-employed and independent contractors may receive unemployment.
- If you can tele-commute, and do your job, BUT elect not to, you cannot collect.
- If you are sick due to COVID-19 or are ordered to self-quarantine, you can collect.
- Each state will have to modify its unemployment application to allow for self-employed and independent contractors to properly file, but they are now covered.

COVID-19 IRA WITHDRAWALS

In certain circumstances, withdrawals between now and December 31, 2020 from IRA's and qualified retirement plans would be:

- (a) Exempt from penalties (but not tax) and;
- (b) The amounts taxed would be spread over 3 years (instead of one).

To qualify and to be eligible you have to be:

- (1) Diagnosed with COVID-19;
- (2) A spouse or dependent was diagnosed with COVID-19
- (3) Experienced adverse financial consequences due to being quarantined, furloughed, laid off or having work hours reduced due to the virus
- (4) Were unable to work due to lack of childcare due to the virus or;
- (5) As a business owner, was forced to close or reduce business hours.

Over the 3 years when the distribution is recognized as taxable income, the taxpayer can reduce that taxable income by making contributions back to the plan or IRA.

PARTICIPANT LOANS

Participants loans from qualified plans are increased from \$50,000 to \$100,000 beginning March 25, 2020 through September 27, 2020. The vested value has also been increased from 50% to 100% !!

Further the due date of said loans are extended by 1 (one) year (to 6 or 11 years).

RMD'S

RMD's (required minimum distributions) are not applicable for 2020. Any RMD's already taken in 2020 can be rolled "back" to the IRA/ Plan as long as they do it within 60 days of the receipt of the RMD.

INHERITED IRA RMD'S

Beneficiaries of inherited IRA's who have opted for a 5-year payout can suspend it for 2020.

CHARITABLE CONTRIBUTIONS

For 2020, there is no AGI limitation on charitable contributions and accordingly carryover of excess charitable contributions may be deducted in 2020.