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April 2020 – Special COVID-19 Update

COVID-19 relief: Overview of the CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. In addition to funding the health care fight against the novel coronavirus (COVID-19), the roughly $2 trillion legislation provides much-needed financial relief to individuals, businesses, not-for-profit organizations, and state and local governments during the pandemic. Here are some of the key provisions for individuals and businesses.

Economic Impact Payments

The CARES Act provides one-time direct Economic Impact Payments of up to $1,200 for single filers or heads of households; married couples filing jointly can receive up to $2,400. An additional payment of up to $500 is available for each qualifying child under age 17.

Economic Impact Payments are subject to phase-out thresholds based on adjusted gross income (AGI). The phase-outs begin at $75,000 for singles, $112,500 for heads of household and $150,000 for married couples.

The payments are phased out by $5 for every $100 of AGI above the thresholds. For example, the payment for a married couple with no children is completely phased out when AGI exceeds $198,000. The payment for a head of household with one child is completely phased out when AGI exceeds $146,500. For a single filer, it is completely phased out when AGI exceeds $99,000.

Employee retention credit

The CARES Act creates a new payroll tax credit for employers that pay wages when:

- Their operations are partially or fully suspended because of certain government orders related to the COVID-19 pandemic, or
- Their gross receipts have declined by more than 50% compared to the same quarter in the prior year.

Eligible employers may claim a 50% refundable payroll tax credit on wages paid (including health insurance benefits) of up to $10,000 that are paid or incurred from March 13, 2020, through December 31, 2020.

For employers who had an average number of full-time employees in 2019 of 100 or fewer, all employee wages are eligible, regardless of whether the employee is furloughed. For employers who had a larger average number of full-time employees in 2019, only the wages of employees who are furloughed or face reduced hours as a result of their employers' closure or reduced gross receipts are eligible for the credit.

Be aware that additional rules and restrictions apply.

Paycheck Protection Program (PPP)

This $349 billion loan program — administered by the Small Business Administration (SBA) — is intended to help U.S. employers keep workers on their payrolls. To potentially qualify, you must have fewer than 500 full- or part-time employees. PPP loans can be as large as $10 million. But most organizations will receive smaller amounts — generally a maximum of 2.5 times their average monthly payroll costs.

If you receive a loan through the program, proceeds may be used only for paying certain expenses, generally:

- Payroll (including benefits),
- Mortgage interest,
- Rent, and
- Utilities.

Perhaps the most reassuring aspect of PPP loans is that they can be forgiven — so long as you follow the rules. And many rules and limits apply. Because of the limited funds available, if you could qualify, you should apply as soon as possible.

The CARES Act expands business access to capital in additional ways. Many of the other loan programs are also being administered by the Small Business Administration (SBA).

Modifications of TCJA provisions

The CARES Act rolls back several revenue-generating provisions of the Tax Cuts and Jobs Act (TCJA). This will help free up cash for some individuals and businesses during the COVID-19 crisis.

The new law temporarily scales back TCJA deduction limitations on:

- Net operating losses (NOLs),
- Business tax losses sustained by individuals,
- Business interest expense, and
- Certain itemized charitable deductions by individuals and charitable deductions for corporations.

The new law also accelerates the recovery of credits for prior-year corporate alternative minimum tax (AMT) liability.

Significant for the hard-hit restaurant and retail sectors, the CARES Act also fixes a TCJA drafting error for real estate qualified improvement property (QIP). Congress originally intended to permanently install a 15-year depreciation period for QIP, making it eligible for first-year bonus depreciation in tax years after the TCJA took effect. Unfortunately, due to a drafting glitch, QIP wasn't added to the list of property with a 15-year depreciation period — instead, it was left subject to a 39-year depreciation period. The CARES Act retroactively corrects this mistake and allows you to choose between first-year bonus depreciation and 15-year depreciation for QIP expenditures.

So much more

The financial relief package under the CARES Act also includes provisions to:

- Significantly expand unemployment benefits for workers,
- Allow IRA owners and qualified retirement plan participants under age 59 ½ who suffer certain adverse effects due to the COVID-19 pandemic to withdraw in 2020 up to $100,000 and then recontribute the withdrawn amount within three years with no federal income tax consequences,
- Waive required minimum distributions (RMDs) from IRAs and retirement plans that would otherwise have to be taken in 2020 to avoid an expensive penalty,
- Provide an above-the-line charitable deduction of up to $300, generally for 2020 cash contributions to qualified charities, and
- Exclude from an employee's taxable income up to $5,250 of employer payments made on the employee's student loans from the date of the CARES Act's enactment through December 31, 2020.

The CARES Act also allows employers to defer their portion of payments of Social Security payroll taxes through the end of 2020 (with similar relief provided to self-employed individuals).

Need help?

Keep in mind that additional guidance could be released, or legislation signed into law, that could affect these CARES Act provisions, and more relief measures could be forthcoming.

The COVID-19 pandemic has affected every household and business in some way. If you have suffered financial losses, contact us to discuss resources that may be available to help you weather this unprecedented storm.

Federal tax relief to alleviate COVID-19 hardships

The massive Coronavirus Aid, Relief and Economic Security (CARES) Act includes numerous tax-related provisions. But before the CARES Act was signed into law March 27, the federal government provided other valuable tax relief in response to the novel coronavirus (COVID-19) pandemic. Here is a closer look.

Families First Coronavirus Response Act

On March 18, President Trump signed into law the Families First Coronavirus Response Act. In certain situations, it mandates paid leave benefits for small business employees affected by COVID-19. The paid leave provisions generally apply to employers with fewer than 500 employees, though employers with fewer than 50 employees may be eligible for an exception. Here are the benefits:

Paid sick leave. The law requires covered employers to provide 80 hours of paid sick leave for full-time employees in certain situations. (Part-time employees are entitled to this paid sick leave for the average number of hours worked over a two-week period.)

Generally, paid sick leave is required when an employee is subject to a COVID-19-related quarantine or isolation order, has been advised to self-quarantine or is seeking a medical diagnosis for COVID-19 symptoms. It's also generally required when an employee is caring for someone subject to a COVID-19-related quarantine or isolation order or is caring for a child whose school or place of care has been closed, or whose childcare provider is unavailable, due to COVID-19 precautions.

When leave is taken for an employee's own COVID-19 illness or quarantine, the leave must be paid at the employee's regular rate, up to $511 per day (up to $5,110 in total). When the leave is related to caring for someone else, the leave must be paid at a minimum of two-thirds of the employee's usual pay, up to $200 per day (up to $2,000 in total).

Paid family leave. The law gives an employee the right to take up to 12 weeks of job-protected family leave if the employee's child's school or childcare location is closed due to COVID-19. The first two weeks are unpaid (though they might qualify for sick pay). For the remaining 10 weeks, the employer must pay at least two-thirds of the employee's usual pay, up to a maximum of $200 per day, subject to an overall maximum of $10,000 in total family leave payments.

Tax credit for employers. To help employers cover this paid leave, the law allows a refundable tax credit equal to 100% of qualified sick leave wages and family and medical leave wages paid by the employer.

The credit applies only to eligible leave payments made during the period beginning on the effective date of April 1, 2020, and ending on December 31, 2020.

Tax credits may also be available to certain self-employed individuals.

Federal tax deadline deferrals

On March 18, the IRS released guidance that outlined the details of a postponed deadline for *paying* federal income taxes. Notice 2020-17 clarified that individual taxpayers and corporations can defer until July 15 federal income tax *payments* that would otherwise be due on April 15.

Notice 2020-18 subsequently provided additional clarifications, including a postponement of the federal income tax *filing* deadline to July 15 as well.

Some specifics under these relief measures are as follows:

For individuals. Individual taxpayers can defer federal income tax payments (including any self-employment tax) owed for the 2019 tax year from the normal April 15 deadline until July 15. They can also defer initial quarterly estimated federal income tax payments for the 2020 tax year (including any self-employment tax) from the normal April 15 deadline until July 15.

For corporations. Corporations that use the calendar year for tax purposes can defer until July 15 federal income tax payments that would otherwise be due on April 15. This relief covers the amount owed for the 2019 tax year and the amount due for the first quarterly estimated tax payment for the 2020 tax year. Both of those amounts would otherwise be due on April 15.

For trusts and estates. Trusts and estates pay federal income taxes, too. Normally, federal income tax payments for the 2019 tax year of trusts and estates that use the calendar year for tax purposes would be due on April 15. The initial quarterly estimated federal income tax payments for the 2020 tax year of trusts and estates that use the calendar year for tax purposes would also normally be due on April 15. These deadlines have also been postponed to July 15.

Notice 2020-20 postponed the filing and payment deadlines for 2019 federal gift and generation-skipping transfer taxes from April 15 to July 15.

Moving target

We have covered only some of the COVID-19-related tax law changes that have already been finalized. There are also other types of federal relief under the CARES Act and through federal agencies, and many states have announced their own COVID-19 relief. More federal measures and additional guidance are expected, some of which could affect the relief discussed here. Contact us to discuss which relief measures may apply in your specific situation.