Tax implications – COVID-19 and the CARES Act
IRS relief

- Notice 2020-17
  - Postponed the due date for certain Federal income tax payments from April 15 to July 15.
- Notice 2020-18
  - Superseded Notice 2020-17:
    - Taxpayers having April 15 due date automatically postponed to July 15
    - Such taxpayers do not have to file Forms 4868 or 7004
- Notice 2020-20
  - Postponed gift and GST returns and tax payments due on April 15 until July 15
COVID-19 paid leave and tax credit

• Families First Coronavirus Response Act:
  o Requires companies with less than 500 employees to provide sick pay and paid family leave to COVID-19 affected employees
  o Payroll tax credit equal to 100% of the required paid leave
Tax relief in stimulus package

- $600 billion in tax cuts for businesses and individuals
- Lawmakers designed the bill to provide immediate benefits and cash flow flexibility
- Many provisions have multiple options for claiming the benefit
- Planning can affect when you get the benefit and how much it ultimately offers
Individual changes

• Direct payments
  • $1,200 single
  • $2,400 married
  • +$500 per child
• Enhanced charitable deductions
• Retirement funds
  • Waiver of penalty on certain early distributions
  • Increased limit on borrowing
Employee benefits

- Allow reimbursement of over-the-counter drugs for HSAs and FSAs
- High deductible health plans provide telehealth and remote care service without a deductible in 2020 and 2021 – affects HSAs
- Waive required minimum distributions (RMDs) for 2020
  - Including RMDs due by April 1, 2020
- Exclude from income up to $5,250 of employer-paid student loan debt in 2020.
Employee retention credit

• 50% credit for up to $10,000 in wages
  o Business must be suspended or partially suspended under government order
  - OR -
  o 50% reduction in quarterly gross receipts form last year

• 100+ employees: Only wages while not providing services
• 100 or fewer: Any wages
• Businesses that take certain SBA small business interruption loan ineligible
Payroll tax suspension

• Suspends 6.2% employer share of Social Security taxes from Mar. 27 through Dec. 31, 2020
• Deferred amounts are due in two equal installments:
  • 50% at the end of 2021, and
  • 50% at the end of 2022
• Employers with certain SBA loans forgiven under the CARES Act are ineligible
Excess business losses

• Suspends the $500k limit in §461(l) for deducting individual business losses until 2021
  o Change retroactive to TCJA enactment in 2018
  o May require amended return for 2018
  o Will turn losses into NOLs eligible for carryback
  o Technical fixes: NOLs, wages, and capital losses not in calculation
Qualified improvement property

- Makes QIP eligible for bonus depreciation going back to the date of TCJA enactment
  - Retail and hospitality benefit big, but so do others
  - Definition very broad: Almost any improvement to building interior owned or leased
  - Opportunity to amend returns or take benefit with accounting method change on 2020 return
AMT credit refund

• Corporate AMT credits under TCJA were refundable over 2018, 2019, 2020 and 2021
• Legislation makes them refundable in either 2018 or over 2018-19
• So three options for filing to claim remaining balance:
  o Amend 2018
  o Claim the balance in 2019
  o File for a tentative refund
NOL carrybacks

• NOLs arising in years beginning after 2017 and before 2021 eligible for 5-year carryback
  • Allows 2-year carryback for year ending in 2018
• 80% taxable income limit suspended until 2021
• Unfavorable technical change for stacking pre- and post- TCJA NOLS beginning in 2021
• Available for individuals!
Section 163(j)

- Two elective benefits:
  - Increases threshold for §163(j) limit on interest deduction from 30% of taxable income to 50% for tax years beginning in 2019 and 2020
  - Can use 2019 income for 2020 calculation
What’s next?

• Congress is in recess until April 20
• House Democrats working on potential fourth COVID-19 stimulus/relief package
• Rumored proposals
  o Retroactive rollback of SALT deduction limitation
  o Expanded sick pay and family leave requirements (businesses with more than 500 employees)
  o Infrastructure?
• President Trump has discussed removing the 50% cap on deducting meals and entertainment