

## 16 Things You Need To Know About The CARES Act

### CARES Act Tax Issues

1. The due date for most tax returns due on or after April 15, 2020 are automatically extended to July 15, 2020.
  - a. This is an extension to file and pay the tax (IRS Notice 2020-18).
  - b. Applies to individuals, trusts, estates, partnerships, LLC's, C corporations, S corporations, non-profits, foundations and gift taxes. Also applies to estate tax returns that were due on or after April 1, 2020.
  - c. The estimated tax payments due April 15th and June 15th are both extended to July 15th.
2. Net Operating Losses (NOL's) were no longer allowed to be carried-back under the 2017 Jobs Act and carryforwards were limited to 80% of taxable income. Now, losses from 2018, 2019 and 2020 can be carried back five years. Also, the 80% limitation is suspended. Loss carrybacks from 2018 can be filed on Form 1045 until June 30, 2020.
3. Losses in excess of \$250,000 (\$500,000 joint) incurred by non-corporate taxpayers were limited under the 2017 Jobs Act. Now for 2018, 2019 and 2020 the limitation has been eliminated. Amended 2018 returns can be filed which can cause a larger 2018 NOL that can be carried back.
4. The 2017 Jobs Act imposed limits the interest deduction for business earning more than \$25 Million. The deduction had been limited to 30% of adjusted taxable income. The 30% limit has been increased to 50% for 2019 and 2020.
5. The 2017 Jobs Act allowed 100% bonus depreciation for most depreciable property. Due to a drafting glitch, improvements made to the "interior of non-residential buildings" was omitted. The CARES Act corrected this for improvements made in years starting with 2018. For 2018 and 2019, either an amended return or a Form 3115 change in accounting method can be used to claim this additional deduction.
6. The CARES Act allows a deferral of 50% of the employer's portion of payroll taxes for 2020 to the end 2021, and the other 50% until the end of 2022. It also applies to 2020 self-employment taxes. This is not forgiveness, just a delay in payment. It cannot be used if the business received Payroll Protection Plan Loan forgiveness
7. A new Employee Retention Payroll Tax Credit is established. For a business greatly affected by COVID-19, it is a credit of 50% of the wages paid to eligible employees from March 12 through December 31, 2020. It applies to employers with 100 or fewer employees, qualifying wages are limited to \$10,000 per employee, there is advanced refunding of the credits or it can be used to

cover withholding payments. Most important is that it cannot be claimed if the business received Payroll Protection Plan Loan forgiveness.

8. Employer repayment, or reimbursement to employees for repayment, of student loans of up to \$5,250, is excluded from income in 2020.
9. The CARES Act states that loan forgiveness from either a Paycheck Protection Program Loan or Economic Injury Disaster Loan is not taxable Cancellation of Debt income. However, the IRS position is that expenses paid with these proceeds are not deductible.

#### **Retirement Plan Items**

10. There is no penalty for early withdrawal (before 59-1/2) of up to \$100,000 from an IRA, 401(k), 403(b), retirement annuity or defined contribution plan. This is only available if the taxpayer, spouse or dependent has been diagnosed with COVID-19, or has experienced adverse financial consequences of being quarantined, furloughed or laid off, or is unable to work due to childcare issues because of COVID-19. The related income can be reported over a three-year period.
11. The CARES Act includes a waiver of all retirement plan and IRA "Required Minimum Distributions" for the year 2020. This applies to those reaching age 72 in 2020, those who reached 70 ½ in or before 2019, and anyone receiving distributions from an inherited IRA or other retirement account.
12. For any RMD taken on or after February 1, 2020, the normal sixty-day rollover provision to return the funds distributed and avoid taxes is extended until July 15, 2020.
13. The plan loan limit is doubled from \$50,000 to \$100,000 for loans during 2020. The due date for existing loans that are due between that date and December 31, 2020 are extended twelve months. The taxpayer has to have been affected by COVID-19.

#### **Charity**

14. Non-itemizers can deduct up to \$300 (\$600 joint) in charitable "cash" contributions.
15. The 60% of AGI limitation on charitable gifts to public charities is waived for 2020 allowing up to 100% of 2020 AGI.
16. The 15% of in-kind charitable donations of food inventory is increased to 25% for food used for the ill or the needs of infants in 2020.

#### **CALIFORNIA**

California has adopted all the tax return due date extensions and the tax payment due date extensions. It also automatically adheres to all of the retirement plan changes.