The Coronavirus Aid, Relief, and Economic Security (CARES) Act, passed by the U.S. Senate and the U.S. House of Representatives was signed by President Trump. This legislation provides a substantial number of tax benefits as an element of the $2 trillion aid package designed to help the economy damaged by the novel coronavirus and highlighted below are some of the major provisions.

Income Tax Recovery Rebates

The bill includes "recovery rebates", more accurately noted as advance refunds of a 2020 tax credit. The law allows a credit of $1,200 for single taxpayers, $2,400 for joint filing taxpayers, and $500 for each qualifying child. The credit will phase out for taxpayers with adjusted gross income above $150,000 for joint filers, $112,500 for heads of household, and $75,000 for single taxpayers.

Taxpayers will modify the credit available on their 2020 tax return by the amount of advance refund they receive.

Payroll Tax Credit Advance Refunds

The bill provides an advance refund of the payroll tax credits enacted in legislation last week (Families First Coronavirus Response Act, P.L. 116-127). The credit applies to both required paid sick leave and the credit for required paid family leave, and the credit is refunded in advance. Instructions for this credit will be provided by the IRS. In addition, the IRS is asked to waive any penalties for failure to deposit the payroll taxes if the failure was due to in anticipation of the payroll tax credit.

Employee Retention Tax Credit

The bill establishes a retention credit for employers that close due to the novel coronavirus. Eligible employers are allowed a tax credit against employment taxes of 50% of qualified wages (up to $10,000 in wages) for each employee. An eligible employer is an employer who was carrying on a trade or business during 2020 and for which the operation of that business is fully **or** partially suspended due to orders from an appropriate governmental authority that limits commerce, travel, or group meetings due to the COVID-19 outbreak. Employers with gross receipts that are **less than 50%** of their gross receipts for **the same quarter in the prior year** are also eligible, up to where gross receipts exceed 80% of their gross receipts for the same calendar quarter in the prior year. Employers with more than 100 employees may consider wages eligible for the credit that the employer pays employees who are not providing services due to the suspension of the business or a drop in gross receipts. Employers with 100 or fewer employees shall consider all wages paid to qualify for the credit.

Retirement Plans

Taxpayers may take up to $100,000 in coronavirus-related distributions from retirement plans without being subject to the Sec. 72(t) 10% additional tax for early distributions. All eligible distributions can be taken up to Dec. 31, 2020. The taxpayers may repay the distributions within three years. An eligible taxpayer for these rules is a person who is diagnosed with the SARS-CoV-2 virus or COVID-19 disease, **or** whose spouse or dependent has been diagnosed with SARS-CoV-2 virus or COVID-19 disease, **or** who experiences adverse financial consequences from being quarantined, furloughed, or laid off, **or** who has had his or her work hours reduced, **or** who is unable to work due to lack of child care. If the distribution results in income to the taxpayer, the amount can be included over a three-year period.

The bill allows loans of up to $100,000 from an employer's qualified plan, and repayment can be delayed.

The bill temporarily suspends the required minimum distribution rules in Sec. 401 for 2020.

Charitable Contributions

The bill creates an above-the-line charitable deduction for 2020; however, this amount is not to exceed $300. The bill also modifies Adjusted Gross Income (AGI) limitations on the deductibility of charitable contributions for 2020. For individuals, a taxpayer may deduct up to 100% of their AGI, and corporations may deduct up to 25% of taxable income. Lastly, the bill increases the food contribution limits to 25%.

Payroll Tax Delay

The bill delays payment of 50% of 2020 employer payroll taxes until Dec. 31, 2021. The remaining 50% will be due Dec. 31, 2022. For self-employment taxes, the same rules will apply. The deferral is allowed for the employer portion of the Social Security tax only. The deferral does not apply to the employee's share of Social Security or either the employee or employer share of Medicare tax. Therefore, the employer can defer the 6.2% cost of the Social Security tax.

Net Operating Losses

The bill temporarily repeals the 80% income limitation for net operating loss deductions for years beginning before 2021. For losses arising in 2018, 2019, and 2020, a five-year carryback is allowed (taxpayers can elect to forgo the carryback).

Excess Loss Limits

The bill repeals the Sec. 461(l) excess loss limitation, which disallowed "excess business losses" of non-corporate taxpayers where the amounts of the loss exceeds $250,000 ($500,000 for married taxpayers filing jointly).

Interest limitation

The legislation allows taxpayers to make an election to limit their deduction for net business interest under Section 163(j) to 50% of adjusted taxable income instead of 30% for tax years beginning in 2019 and 2020. Taxpayers can elect out of this treatment. In addition, the bill adds an election to allow taxpayers to use their taxable income for 2019 to calculate their limit for 2020. For passthrough entities, both elections must be made at the partnership level. In addition, 50% of excess business interest allocated to a partner in the tax year beginning in 2019 will be reclassified as business interest expense and is not subject to the limit at the partner level in 2020 unless the partner elects out of this specific treatment.

Qualified Improvement Property

The bill makes the technical corrections regarding qualified improvement property under Code Section 168 by identifying these expenditures as 15-year property. More importantly, the law retroactively applies these rules to January 1, 2018, and will allow taxpayers to amend returns or take the benefit on their next return with an accounting method change.

Health Care Plans

High deductible health plans (HDHP's) have become a popular source for employer provided health care. Rules that apply to these plans were modified to allow the HDHP's to cover remote case services without charging a deductible.