

Coronavirus Aid, Relief, and Economic Security (CARES) Act

SKP wants to keep you abreast of the developments related to COVID-19 aid that has been created via the passing by the Senate of the Coronavirus Aid, Relief, and Economic Security (CARES) Act. This \$2.2 trillion-dollar package contains many moving parts and can become law pending House approval. Below are some of the highlights which we feel effect our clients:

Individual Tax Relief

Individuals and their children will receive advance refunds of their 2020 taxes equal to \$1,200 for individuals, \$2,400 for joint filers, and a \$500 credit for each child. The refunds are phased out beginning at \$75,000 for single filers, \$112,500 for head of household, and \$150,000 for joint filers. The income limits are based upon 2018 unless a 2019 return was already filed. Refunds cap out after the phase out when the taxpayers hit \$99,000 for single filers, \$136,500 for head of households, and \$198,000 for joint filers. Certain other restrictions are applicable.

Retirement Plans

The bill waives a 10% excise tax penalty on early withdrawals from a qualified retirement plan in 2020, so long as the individual doing so is affected financially or health-wise by the COVID-19 crisis. The withdrawal is still subject to income tax over a three-year period and can re-contribute the amounts back into the retirement plan within three years. Minimum required distributions are also granted exemption meaning the distribution out of a plan for an individual can be forgone in 2020, without penalty.

Employee Retention Credit for Employers subject to closure due to COVID-19

This Cares Act would give eligible employers a credit against payroll taxes equal to 50% of wages paid to employees not working due to the business's mandatory shut down or significant decline in gross receipts. The quarterly credit would be claimed on up to \$10,000 in aggregate wages per employee (per year).

Payroll Tax Deferral

To help businesses with cash flow needs, and to help them retain employees, the Act defers payroll taxes from the period beginning on the date of the Act is signed into law and ending December 31, 2020. The liability incurred and deferred are due December 31, 2021 and 2022. There are also special computations for self-employed individuals related to self-employment tax.

Net Operating Losses

The Tax Cuts and Jobs Act (TCJA) eliminated many of the benefits associated with NOL's beginning in 2019. The Bill allows for a five-year carryback of NOL's that have accumulated in 2018, 2019 and 2020 by businesses. Businesses will be allowed to amend or modify returns dated back to 2013 in order to take the carryback claim. The Act also eliminates the excess business loss limitation rules related to passthrough entities and sole proprietors.

Business Interest Expense Limitations

The Tax Cuts and Jobs Act (TCJA) limited the amount of allowable deductions for business interest whereby, generally the limitation was set at 30% of the taxpayers adjusted taxable income. The Bill increases the limitation to 50% for 2019 and 2020. The 2019 taxable income amount may be used for the 2020 limitation as well.

Qualified Improvement Property Technical Fix

Also, in the TCJA, congress incorrectly defined qualified improvement property as 39-year life property, thus not qualified for bonus depreciation. In the Act, congress intends to correct the defined life of qualified improvement property to 15 years, thus allowing bonus depreciation to be taken on this special class of asset.

Minimum Tax Credits

The TJCA had eliminated the Alternative Minimum Tax (AMT) for corporations after 2017 but allowed a refundable portion of any unused AMT credits through 2021. The limited use of such credit was set at 50% of any excess minimum tax in 2018 through 2020 before being fully refundable in 2021. The bill allows the credit to be claimed fully in 2019.

Paycheck Protection Program

Probably the most interesting of all programs, eligible businesses may receive up to \$10,000,000 in loans, based upon a formula. The loans will be made through FDIC lenders. Loans will be forgiven if employment and wage levels are maintained. In particular:

- Small businesses with 500 or fewer employees during the February 15 – June 30, 2020 period are eligible. Some industries with more employees may qualify under certain circumstances.
- Loan is based upon 2 1/2 times the monthly payroll, plus other costs, up to 100,000 per employee.
- No personal guarantees.
- Loan use is targeted for salary, paid sick leave, insurance costs, mortgage, rent and utility payments of the business.

SKP is striving to keep you current of these fluid developments and assist your businesses. We care about our clients and want to make sure they can participate in any programs available and applicable. State and local programs are also becoming available and we continue to send out details as they are made available to us.

Stay safe and let us know how we can help!