April 1, 2020

Individuals

CARES Act: What You Need to Know About the Economic Impact Payments

The Treasury Department and the Internal Revenue Service announced March 30, 2020 that distribution of economic impact payments will begin in the next three weeks and will be distributed automatically, with no action required for most people. However, some seniors and others who typically do not file returns will need to submit a simple tax return to receive the stimulus payment.

Who is eligible for the economic impact payment?

Tax filers with adjusted gross income up to $75,000 for individuals and up to $150,000 for married couples filing joint returns will receive the full payment. For filers with income above those amounts, the payment amount is reduced by $5 for each $100 above the $75,000/$150,000 thresholds. Single filers with income exceeding $99,000 and $198,000 for joint filers with no children are not eligible.

Eligible taxpayers who filed tax returns for either 2019 or 2018 will automatically receive an economic impact payment of up to $1,200 for individuals or $2,400 for married couples. Parents also receive $500 for each qualifying child.

How will the IRS know where to send my payment?

The vast majority of people do not need to take any action. The IRS will calculate and automatically send the economic impact payment to those eligible.

For people who have already filed their 2019 tax returns, the IRS will use this information to calculate the payment amount. For those who have not yet filed their return for 2019, the IRS will use information from their 2018 tax filing to calculate the payment. The economic impact payment will be deposited directly into the same banking account reflected on the return filed.

The IRS does not have my direct deposit information. What can I do?

In the coming weeks, Treasury plans to develop a web-based portal for individuals to provide their banking information to the IRS online, so that individuals can receive payments immediately as opposed to checks in the mail.

I am not typically required to file a tax return. Can I still receive my payment?

Yes. People who typically do not file a tax return will need to file a simple tax return to receive an economic impact payment. Low-income taxpayers, senior citizens, Social Security recipients, some veterans and individuals with disabilities who are otherwise not required to file a tax return will not owe tax.

I have not filed my tax return for 2018 or 2019. Can I still receive an economic impact payment?

Yes. The IRS urges anyone with a tax filing obligation who has not yet filed a tax return for 2018 or 2019 to file as soon as they can to receive an economic impact payment. Taxpayers should include direct deposit banking information on the return.

I need to file a tax return. How long are the economic impact payments available?

For those concerned about visiting a tax professional in person to get help with a tax return, these economic impact payments will be available throughout the rest of 2020.

CARES Act: Above the Line Deduction for Charitable Contributions

The Coronavirus Aid, Relief, and Economic Security (CARES) Act offers enhanced tax incentives for making charitable contributions for the 2020 tax year including an above-the-line deduction for individuals who do not itemize.

In general, the itemized charitable deduction for any tax year is limited to a percentage of the taxpayer's adjusted gross income (AGI). The percentage is determined by the type of organization receiving the donation and the type of property donated. For the 2020 tax year, individuals can claim an unlimited itemized deduction for charitable contributions which are normally limited to 50 percent of AGI.

Also, beginning in tax year 2020, an individual who does not itemize deductions can deduct up to $300 in charitable contributions made to churches, nonprofit schools, nonprofit medical institutions, and other organizations as an above-the-line deduction in calculating adjusted gross income. This allows an individual to claim a deduction for a charitable contribution, even if the individual does not itemize deductions.

Coronavirus Response: Extension of Time to File and Pay

The Treasury Department and Internal Revenue Service have announced that the federal income tax filing due date is automatically extended from April 15, 2020, to July 15, 2020. Taxpayers can also defer federal income tax payments due on April 15, 2020, to July 15, 2020, without penalties and interest, regardless of the amount owed. This deferment applies to all taxpayers, including individuals, trusts and estates, corporations and other non-corporate tax filers as well as those who pay self-employment tax.

Taxpayers do not need to file any additional forms or call the IRS to qualify for this automatic federal tax filing and payment relief. Individuals and business taxpayers that need additional time to file beyond the July 15 deadline, can request a filing extension.

However, the IRS urges taxpayers who are due a refund to file as soon as possible. Most tax refunds are still being issued within 21 days.

This announcement comes following the President's emergency declaration pursuant to the Stafford Act. The Stafford Act is a federal law designed to bring an orderly and systematic means of federal natural disaster and emergency assistance for state and local governments in carrying out their responsibilities to aid citizens. It was enacted in 1988.

CARES Act: Waiver of Required Minimum Distribution Rules

The Coronavirus Aid, Relief, and Economic Security (CARES) Act waives all required minimum distributions for 2020, regardless of whether the taxpayer has been impacted by the pandemic.

The required minimum distribution (RMD) rules prevent taxpayers from extending the tax benefit for retirement savings indefinitely. In general, a minimum required distribution must be made for the later of the year in which the participant turns 70 1/2 (or 72, if they have not reached 70 1/2 before 2020) or retires, and for every year thereafter. The required beginning date cannot be delayed until retirement if the participant is a five-percent owner of the employer, or if the account is an IRA. The distribution for the first year can be made as late as April 1 of the following year. For other years, the required distribution must be made during the calendar year.

The waiver under the CARES ACT applies for calendar year 2020 to defined contribution plans, certain annuity plans, and traditional or Roth IRAs. The waiver allows seniors to hold on to their plan assets when they might otherwise have to sell at market lows.

Comment

There may be an additional benefit of the waiver for taxpayers who turned 70 ½ in 2019 and did not take their first required distribution in 2019. For those individuals who chose to wait until April 1, 2020 and had not yet taken the distribution at the time legislation was passed, they can waive both the 2019 and 2020 RMDs.

Conversely, for all taxpayers who have already taken their distribution, it is uncertain if they can still benefit from the waiver. In general, distributions received each year, up to the amount of the individual's RMD, are not eligible rollover distributions. We must wait for guidance from the IRS to see if the generally applicable rule continues to apply for 2019 and 2020 RMDs that were taken prior to the CARES Act. For now, the distribution is included in income. However, if redepositing the RMD into another tax qualified account would otherwise qualify as a rollover, then taxpayers may be able to treat it as they would any other rollover (i.e. redeposit it somewhere within 60 days, convert to a Roth, etc.).

CARES Act: Special Rules for Use of Retirement Funds

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides relief designed to increase liquidity in the economy including modifications to the rules on the use and distribution of retirement funds.

Withdrawals

The CARES Act waives the 10-percent penalty on early withdrawals up to $100,000 from qualified retirement plans for coronavirus-related distributions. For purposes of the penalty waiver, a coronavirus-related distribution is one made during the 2020 calendar year, to an individual (or the spouse of an individual) diagnosed with COVID-19 with a CDC-approved test, or to an individual who experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours due to the virus.

Any income attributable to an early withdrawal is subject to tax over a three-year period, and taxpayers may recontribute the withdrawn amounts to a qualified retirement plan without regard to annual caps on contributions if made within three years. This relief is commonly granted by Congress in the wake of major disaster declarations, such as those made after a major hurricane.

Loans

The maximum loan amount is increased from the lesser of $50,000 or 50% of vested balance to the lesser of $100,000 or 100% of vested balance. This increase applies to loans made between March 27, 2020 (the date of enactment of the CARES Act) and December 31, 2020.

In addition, if a qualified individual has a loan repayment due date after March 27, 2020 and before December 31, 2020, on an outstanding loan, the payment due date is delayed one year (or, if later, until the date which is 180 days after March 27, 2020). Any subsequent repayments with respect to the loan will be adjusted accordingly and the five-year period for repayment is disregarded.

Similar to the rules on withdrawals, a qualified individual is an individual (or the spouse of an individual) diagnosed with COVID-19 with a CDC-approved test, or to an individual who experiences adverse financial consequences as a result of quarantine, business closure, layoff, or reduced hours due to the virus.

Required Minimum Distributions

The CARES Act also waives required minimum distributions, regardless of whether the taxpayer has been impacted by the pandemic. The waiver applies for calendar year 2020 to defined contribution plans, certain annuity plans, and traditional or Roth IRAs. The waiver allows seniors to hold on to their plan assets when they might otherwise have to sell at market lows.

Additional Modifications

- *IRA Contribution Deadline*. The deadline to make an IRA contribution is extended to July 15, the extended due date for tax returns.

- Mandatory 20% Withholding. The mandatory 20% income tax withholding on rollovers is also suspended for 2020.

CARES Act: Modifications for Net Operating Losses

The Coronavirus Aid, Relief, and Economic Security (CARES) Act provides tax relief to individuals and businesses in an effort to support the economy. Included in the numerous provisions is a modification to the rules on the tax treatment of net operating losses.

Normally, NOLs arising in tax years beginning after 2017 may only reduce 80 percent of a taxpayer's taxable income in carryback and carryforward years. The two-year carryback period and twenty-year carryforward period, as well as the longer carryback periods for special types of losses, were eliminated under the Tax Cuts and Jobs Act, effective for NOLs arising in tax years ending after 2017. NOLs arising in tax years ending after 2017 are carried forward indefinitely.

However, under the CARES Act, net operating losses (NOLs) arising in tax years beginning in 2018, 2019, and 2020 now have a five-year carryback period and an unlimited carryforward period. The general rule limiting an NOL deduction to 80 percent of taxable income does not apply to NOLs arising in these years.

Extension of time to waive five-year carryback for 2018 and 2019 NOLs. The five-year carryback period may be waived by making an election. For NOLs that arose in tax years beginning in 2018 or 2019, the time for making the waiver election is extended to the due date (including extensions) for filing the taxpayer's return for the first tax year ending after March 27, 2020 (the date of enactment of the new law). Normally, the election is required by the due date (including extensions) of the return for the tax year in which the NOL arose. The regular election deadline continues to apply to NOLs arising in a tax year that begins in 2020.

The extended due date is necessary because the statutory deadline for making the waiver election has expired for some taxpayers. The CARE Act contains no specific relief that allows taxpayers with a 2018 or 2019 NOL to file a late tentative refund application. Since the due date for filing a tentative refund application is statutorily required to be filed within one year after the close of the NOL year the IRS is not able grant administrative relief. Consequently, taxpayers for whom the deadline has passed will need to file amended returns in order to claim refunds.

CARES Act: Increased Deduction Limits for Charitable Contributions

The Coronavirus Aid, Relief, and Economic Security (CARES) Act offers enhanced tax incentives for making charitable contributions for the 2020 tax year.

Individuals

In general, the itemized charitable deduction for individuals is limited to a percentage of the taxpayer's adjusted gross income (AGI). The percentage is determined by the type of organization receiving the donation and the type of property donated. For the 2020 tax year, individuals can claim an unlimited itemized deduction for charitable contributions which are normally limited to 50 percent of AGI.

Also, beginning in tax year 2020, an individual who does not itemize deductions can deduct up to $300 in charitable contributions made to churches, nonprofit schools, nonprofit medical institutions, and other organizations as an above-the-line deduction in calculating adjusted gross income. This allows an individual to claim a deduction for a charitable contribution even if the individual does not itemize deductions.

Corporations

A corporation's deduction is generally limited to 10 percent of the corporation's taxable income, computed with certain adjustments. The percentage limit was temporarily waived for qualified contributions made by a corporation after December 31, 2017, and before February 19, 2020, for relief efforts in qualified disaster areas. Under the CARES Act, the percentage limitation on the charitable contribution deduction for corporations is increased to 25 percent for the 2020 tax year.

Food Inventory

Corporate and noncorporate taxpayers are entitled to an enhanced deduction for charitable donations of food inventory from any trade or business. The food inventory must consist of items fit for human consumption and be contributed to a qualified charity or private operating foundation for use in the care of the ill, the needy, or infants. Normally, a noncorporate taxpayer's total deduction for food inventory donations during the tax year is limited to a maximum of 15 percent of the taxpayer's net income from all trades and businesses from which the donations are made during the tax year. In the case of a C corporation, the deduction is limited to 15 percent of the corporation's taxable income. Under the CARES Act, the deduction for the contribution of food inventory is increased from 15 percent to 25 percent for the 2020 tax year.

CARES Act: Recovery Rebates for Individuals

After days of furious negotiations, Congress has passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act. The $2.2 trillion price tag for tax relief and incentives for individuals and businesses makes it the most expensive piece of legislation ever passed. It includes the greatly anticipated provision for recovery rebate credits to individuals.

Under the CARES Act, individual taxpayers will receive advance refunds of credits against 2020 taxes equal to $1,200 for individuals, or $2,400 for joint filers, plus $500 for each qualifying child. Generally, income tax credits reduce a taxpayer's income tax liability and are claimed on the tax return for the year they arise. However, the government will make advance payments of the credit as soon as possible, with eligibility and credit amounts based on information from 2019 or 2018 tax returns.

The amount of each recovery rebate credit is phased out by $5 for every $100 in excess of a threshold amount. This threshold amount is based upon 2018 adjusted gross income (unless a 2019 return has already been filed). The phaseout begins at $75,000 for single filers, $112,500 for heads of households, and $150,000 for joint filers. Thus, the rebates are completely phased out for single filers with 2018 (or 2019, if applicable) adjusted gross income over $99,000, heads of household with $136,500, and joint filers with $198,000. Once the credit for an eligible individual phase out, the credit for each qualifying child phases out with each additional $10,000 in AGI over the threshold.

Example

Pat and Terry are eligible individuals who file a joint return that claims two qualifying children. If Pat and Terry's AGI is $198,000 or less, they are entitled to a $3,400 advance payment ($1,200 each for Pat and Terry, plus $500 for each child). If Pat and Terry's AGI is at least $218,000, their advance payment is completely phased out. If Pat and Terry's AGI is more than $198,000 but less than $218,000, their $3,400 advance payment is partially phased out. For example, if their AGI is $205,000, their $3,400 credit is reduced by $350 (five percent of their $7,000 AGI that exceeds the phase-out threshold).

In order to be eligible for a recovery rebate, the individual must not be:

- a nonresident alien,
- able to be claimed as a dependent on another taxpayer's return,
- an estate or trust, and

- must have included a Social Security number for both the taxpayer, the taxpayer's spouse, and eligible children (or an adoption taxpayer identification number, where appropriate).

The advance credit is based on the AGI reported and the qualifying children claimed on the eligible individual's 2019 return. If the individual requested payment of any refund via electronic funds transfer, the IRS may pay the advance credit to that same bank account. However, if an individual has not filed a 2019 return by the time the advance credits are determined, the advance credit is based on the individual's 2018 tax return. If the individual has not filed a 2018 return by the time the advance payments are determined, the advance payment is based on information provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Payments by the Railroad Retirement Board, for calendar year 2019.

Although the advance credit is based on earlier tax returns, the rebate actually applies to the 2020 tax year. The advance credit reduces the amount of the taxpayer's credit for the 2020 tax year, but not below zero. One-half of any advance payment or refund made on a joint return is treated on having been made or allowed to each spouse. Thus, it appears that a taxpayer whose advance credit is reduced or eliminated because of the AGI limits (based on their 2019 or 2018 return) may still be able to claim the credit on a 2020 return if 2020 AGI drops below the phase-out limits.

Please call our office with any questions CARES Act. We are here to help you.

The rules are changing minute by minute, we will endeavor to keep you up to date!