



Covid-19 Tax Impact: How to Survive and Conquer!

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Federal Government Goals and Objectives

Administrative Relief

- 3/13/20: Trump issued emergency determination. Encouraged states to consider federal assistance.
- 3/20/20: Major disaster for the state of New York was declared
- 3/22/20: Major disaster declared for Washington and California

When disaster is declared, the Code and regulations authorize the IRS to postpone certain tax-related deadlines for up to one year.

- Postpones include filing income, excise, and employment tax returns; paying income, excise, and employment taxes; and making contributions to a traditional or Roth IRA

2019 Income Tax Returns and Payment- ***Now Due 7/15/20***

- Most states following Federal lead (But not all states)
- Includes C-Corporation
- Extension forms may be filed by 7/15 to extend to 10/15/20 to file return, but not payment of tax due
- All penalties and interest will not accrue until 7/16/20

2020 First and Second Quarter Estimates- Now Due 7/15/20

Types of IRS Relief and Tax Postponements

What's the Fed's Goals for this Legislation?

1. Ease Taxpayer Stress
2. Keep People Employed at their Current Pay
3. Increase Liquidity, Reduce Cost of Capital to continue Operations
4. Get Cash in People's Hand
 - Stimulus Check
 - Unemployment Enhancements
 - Tax Incentives (to be discussed)
 - Loan Incentives (PPP, EIDL, States and County)
5. Buy Time (but will 8 weeks from now do it?)
 - Get the Economy back to where it was going- Fast!

BUT AT WHAT FUTURE COST?

For Businesses

1. Payroll & Payroll Tax Credits/ Deferrals
2. Employee Retention Credit
3. Net Operating Loss
4. Excess Business Loss Limitation
5. Business Interest Expense Limitations
6. Pension Plan Funding
7. Qualified Improvement Property

SHOW ME
THE MONEY!

THE TWO CORONAVIRUS RELIEF ACTS

Families First Coronavirus Response Act (FFCRA)

- Enacted 3/18/20
- Mostly for victims directly effected by pandemic
- Expanded Family and Medical Leave to employees
- Tax Credits to Employers to pay for the leave
- Affects Employer- sponsored health plans

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

- Enacted 3/27/20; \$2.2 Trillion (Largest Economic Stimulus in history)
- Stimulus Payment to Individuals, Enhanced Unemployment
- PPP and EIDL Loans
- Additional tax cuts

For Employers:

Refundable credits against FICA Tax for employees ***taking paid sick or family leave.***

- Credit equals 100% of sick leave wages- up to \$511 /day (\$5,110 total)
Unable to work due to local quarantine, self-quarantine, or experiencing coronavirus symptoms
- Child Care Leave Credit- 100% of family leave wages- up to \$200/ day (maximum of \$10K / eligible employee; up to 10 weeks of leave)
- Tax credit is applied against your 941 taxes (SS Med Fed Withholding)
- Similar Rules applied to Self- Employed individuals against income tax
- Sick or Family Leave Wages here are excluded from FICA Tax

Business-
Payroll &
Payroll Tax
Credits

Payroll Tax Payment Deferral- 6.2% Employer
Portion of FICA from 3/27 to 12/31/20.

Deferred portion must be paid over the following
two years, with half to be paid 12/31/21 and half
by 12/31/22.

Note: Not eligible on taxes incurred after loan
forgiveness.

**Not recommended, unless very disciplined with
payments**

Business-
Payroll &
Payroll Tax
Credits

Employee Retention Credit

Refundable credit against FICA for 50% of wages paid by eligible employers to certain employees during the crisis

- Tax credit is applied against your 941 taxes (SS Med Fed Withholding)
- Not available if take PPP or EIDL

Eligible Employers:

1. Operations fully or partially suspended due to a COVID-19 –related shut-down order
2. Gross receipts declined by more than 50% when compared to the same quarter in the prior year

Employee Retention Credit

Qualified Wages- For Eligible employers with:

- Less than 100 FT employees: ***ALL WAGES QUALIFY***, whether open for business or subject to shut-down.
- If more than 100 employees: Wages paid only when not providing services due to crisis qualify.
 - Credit applies to the first \$10,000 of compensation, including health benefits, paid to eligible employee after 3/12/20 and before 1/1/21
- In anticipation or receiving payroll tax credits, eligible employer penalties are waived, as long as amounts not deposited timely are equal or less than the credits

NOL CARRYBACKS ARE BACK!

CARES Act modifies TCJA's treatment!

For losses in tax year beginning in 2018, 2019 or 2020, may carry back NOL to the prior five year.

NOL Carryforwards Rules also modified (slightly)!

Allowed 100% deduction (as opposed to 80%), as follows:

In tax years beginning in 2021, allowed (1) 100% deduction for NOLS for years prior to 2018 and (2) a deduction limited to 80% after 2017.

Outside the Box Idea: Review 2015-2017 Tax Returns and "Generate" a loss in 2020 to carry back to collect old tax paid at higher rates

Business- Net
Operating
Loss

Excess Business Losses

Excess Business Loss Limitation turned off

- Retroactively for 2018, 2019 and 2020
- Previously limited business loss to \$250K and \$500k Joint)
- As of now, limitation does not go back into effect until 2021

Business Interest Expense Limitation Raised to 50% of Adjusted Taxable Income (ATI)

- For 2019 and 2020 only
- Previously limited business interest expense to 30% of ATI

For Partnership, limitation for 2019 is still 30%,but can elect to use excess in 2020.

Business
Interest
Expense
Limitation

Other Business Items to increase Liquidity

Qualified Pension, Profit Sharing and Stock Bonus Plan Funding

Delays Due Date for any 2020 contributions due during 2020 to 1/1/21

- Only for Single-Employer plans

Qualified Improvement Property

- Technical Correction to allow 15-year recovery period instead of 39-year for depreciation, as originally intended
- Bonus depreciation also allowed

SHOW ME THE MONEY!

For Individuals

1. 2020 Recovery Rebates
2. Charitable Contributions & HSA Expanded
3. Retirement Plan Impacts
4. Student Loan Payments by Employers

2020 Recovery Rebate- started April 15

\$1200 (\$2400 MFJ) Rebates paid as advance refunds based on AGI on 2018 or 2019 tax filings.

- AGI up to \$75K Single, \$150K MFJ and not a dependent of another
- Phased out above \$99K Single and \$198K MFJ (or \$218K for family of 4)
- Additional \$500 per qualifying child (generally under age 17)
- Not Eligible based on 2019 or 2018 can become eligible based on 2020

Charitable Contribution

- Above-the-Line Deduction – Permits Nonitemizers to deduct up to \$300 of cash contributions
- Limitation increased from 60% to 100% of “modified income”

HSA Expansion

- Covers telehealth services and nonprescription medical products
- Starting 1/1/20

For Individuals

Retirement Plan Impacts

- Suspends RMDs for 2020
- Gives retirement portfolios additional time to recovery from markets volatility
- Includes Inherited IRAs
- If impacted by COVID-19, can take distribution up to \$100K, without 10% penalty tax.
 - THIS PROVISION SEEMS TO BE VERY BROAD!
 - Can also repay it back within three years

Outside the Box Idea: Consider Roth Conversions (lower tax rates due to potential lower income)

Student Loan Payment by Employers

Excludes up to \$5,250 for income for payments on employee's education loans (added to definition of educational assistance)

- However, Federal student loans are deferred with no interest until September

For Individuals

