The Coronavirus Aid, Relief, and Economic Security (CARES) was enacted to help individuals and businesses get through the coronavirus pandemic. A brief summary of the tax rules follows.

I. ***Rebate Checks for Individuals.*** Rebate checks are advance payments of a new refundable tax credit and are for individuals with adjusted gross income (AGI) below set amounts are being paid via the IRS. Eligibility is based on by 2019 AGI, if filed, or on 2018 returns if not. Different AGI thresholds apply to joint filers, heads of households, and other filers. There is a phase-out range in which individuals can receive a partial payment. There is also an added amount for each dependent child; correspondingly, an individual who is another taxpayer's dependent does not receive a rebate check. The rebate check is an advance of a 2020 tax credit; therefore, some taxpayers may be eligible for an additional amount when they file their 2020 income tax return. This can occur, for example, if 2020 AGI is lower than the amount used to determine the rebate check. If 2020 AGI is higher, however, there is no clawback of the rebate. The rebate checks are not included in gross income.

II. ***Retirement Plan Relief***. To alleviate some of the financial pain, the act provides:
   A. No required minimum distributions are necessary in 2020.
   B. The 10% early distribution penalty that usually applies to those under age 591/2 on withdrawals up to $100,000 from IRAs, 401(k) accounts, and other qualified retirement plans, as well as deferred compensation plans, is waived if corona virus-related.
   C. This means the individual (or spouse) has been diagnosed with COVID-19 or experiences adverse financial consequences because of quarantine, business closure, layoff, or reduced hours due to the pandemic.
   D. Income from a coronavirus-related distribution can be spread over three years to minimize the tax impact on the distribution.
   E. Distributions can be recontributed to the plans from which they came within three years. Recontribution amounts are not subject to annual contribution limits.

III. ***Charitable Contributions by Individuals and Businesses***. To encourage charitable giving:
   A. Individuals who do not itemize can take an above-the-line deduction for any charitable contributions in all 2020 up to $300.
   B. Individuals who itemize personal deductions in 2020 can deduct 100% of all ***cash*** contributions with no limitations.
   C. Corporations can deduct contributions up to 25% of taxable income for 2020, instead of the usual 10% limit.
   D. Contributions of food inventory, deductions for which are usually limited to 15% of AGI, are deductible up to 25% in 2020.

IV. ***Payroll Tax Changes***. To encourage continued employment of workers and to the cash flow burden on businesses struggling to survive the crisis, the Act provides:
   A. An employee retention credit equal to 50% of qualified wages paid to employees who are not working because of business being fully or partially suspended due to government orders related to the coronavirus or a significant decline in gross

receipts (50% less in the current calendar quarter compared with the same quarter in 2019).

B. The credit applies to wages paid after March 12, 2020, through December 31, 2020.

C. The amount considered per employee is limited to wages (including healthcare benefits) up to $10,000 for all quarters.

D. The credit:

1. is taken against applicable employment taxes (the employer's share of the Social Security portion of FICA); and,
2. is not an income tax credit and does not factor into the general business credit.

V. ***Other payroll tax changes include the following:***

1. Deferral of payroll taxes from the date of enactment through December 31, 2020.
2. This applies only to the employer's share of Social Security taxes in FICA.
3. Fifty percent of the deferred taxes are payable by December 31, 2021, and the other 50% by December 31, 2022.
4. Similar deferral is allowed for a portion of self-employment tax paid by individuals; the "employer portion" of Social Security taxes (6.2% of total self-employment tax) can be deferred.

VI. ***Tax-free treatment of student loan repayment assistance***. Employer payments of employees' student loan debt (up to $5,250) made after the date of enactment and before January 1, 2021, are considered a tax-free fringe benefit. This benefit is not included in wages and is not subject to employment taxes.

VII. ***Business Losses.***

A. the limit on losses for noncorporate taxpayers, which was introduced by the Tax Cuts and Jobs Act (TCJA) to curtail current deductions above a set dollar amount, has been repealed by the act.

B. The rules for net operating losses (NOL) have been greatly expanded.

1. Prior to the TCJA, there had been a two-year carryback for NOLs; carrybacks and carryovers could offset 100% of taxable income.
2. The TCJA ended the carryback (other than for farming businesses) and capped offsets from carry- forwards to 80% of taxable income.
3. The CARES Act restores and expands the carryback. For 2018, 2019, and 2020, there is a five-year carryback for all businesses and a 100% offset to taxable income; this means that any businesses with losses in those years and 2019 can file amended returns to claim immediate tax refunds.
4. To get a quick refund, you may claim the refund prior to filing tax returns pursuant to the instructions on IRS Form 1045 for individuals and Form 1139 for C corporations.

C. ***Other Business Tax Provisions.*** The limitation on deducting business interest by other-than-small businesses (those that meet a gross receipts test) or farming and real estate businesses that elect to be exempt has eased the limitation to permit more interest to be deducted.

   1. But for 2019 and 2020, the limit is increased to 50% of adjusted taxable income;
   2. For 2020 returns, taxpayers can elect to use 2019 adjusted taxable income.
   3. Taxpayers should make this election where the 2019 amount is higher than the 2020 amount.

D. The Paycheck Protection Program included in the CARES Act is an SBA 7(a) loan program for small businesses. The Act provides PPP loan forgiveness, which is not income from the cancellation of debt is included in gross income and is treated as tax-free.

E. High deductible health plans (HDHP) usually must require that the insurance deductible be exhausted before policy benefits apply. The CARES Act allows HDHPs to provide telemedicine services without a premium without being disqualified and allows tax-free reimbursements for menstrual products with no prescription required.

VIII. Watch for IRS updated instructions and publications.

We hope this helps, and as always, please feel free to contact us with any questions.

Freed and Shepherd, P.C.