

Dear Valued Client:

On March 25, 2020 the President has signed the Coronavirus, Aid, Relief and Economic Security (CARES) Act as passed by Congress to stabilize the economy, support small businesses with federal loans, enhance unemployment insurance and provide tax relief and tax incentives for individuals and business. Below are the key tax provisions that specifically provide relief to individuals and businesses.

Business

Employee Retention Credit for Employers

The CARES Act would grant eligible employers a refundable payroll tax credit equal to 50% of qualified wages (capped at the \$10,000 per employee) paid to employees who are not working as a result of a government order closure, or experienced more than 50% reduction in quarterly gross receipts. The credit applies to wages paid after March 12, 2020 and before January 1, 2021. The term wages include health benefits. The credit will not be available to employers receiving Small Business Administration 7(a) Paycheck Protection Program loan. The calculation of credit is different for small business employers (i.e.: less than 50 employees) and larger employers.

Defer Employer Portion of Social Security Tax

The CARES Act allows employer to defer paying the employer portion of Social Security Tax (equivalent to 6.2% of wages) through the end of 2020. Half of the deferred payroll taxes are due December 31, 2021 and the remainder due on December 31, 2022. The deferral does not apply to any employer who had debt forgiven under Small Business Administration loan.

Bonus depreciation for Qualified Improvement Property

Congress has corrected the definition of Qualified Improvement Property (QIP) from 2018 Tax Reform. QIP is now designated as 15 years property for depreciation purposes. This makes QIP to be eligible for 100% bonus depreciation to be deducted in the year incurred. This change is made effective for property acquired and placed in service after September 27, 2017.

Net Operating Losses Carryback

The CARES Act temporarily allows for a five years carryback of net operating losses (NOL) arriving in 2018, 2019 or 2020 by a business (previously, NOL is only allowed to be carried forward). In addition, CARES Act temporarily removes the limit of NOL to offset 80% taxable income as NOL incurred prior to January 1, 2021 can offset 100% of taxable income.

Deductibility of Business Interest Expense Temporarily Increased

For tax years beginning after January 1, 2018, business interest has been limited to 30% of business' adjusted taxable income for businesses with gross receipts of more than \$26 million. The CARES Act increased the limitation amount to 50% of taxable income for 2019 and 2020.

Individual

ADVANCE REFUND - Recovery Rebates

Under CARES Act, a taxpayer will receive an advance refund against his/her 2020 income taxes. The rebate is equal to \$1,200 for individuals with adjusted gross income (AGI) of less than \$75,000, or \$2,400 for joint filers with AGI of less than \$150,000, with \$500 credit for each child. The AGI is based on 2019 tax return if filed (or 2018 if the taxpayer has not filed 2019 return). The amount of each rebate is phased out by \$5 for every \$100 in excess of AGI threshold. The rebates will not be available to individual with AGI of \$99,000 or more, head of household with AGI of \$136,500 or more, and joint filers with AGI of \$198,000 or more.

No 10% early withdrawal penalty on Retirement Plan distribution

The CARES Act will waive the 10% penalty on early withdrawal from qualified retirement plan or Individual Retirement Account (IRA) due to COVID-19 related distribution up to \$100,000. The taxpayer is still responsible to pay income tax on the distribution to be paid over a three-year period. Taxpayers may recontribute the withdrawn amounts to a qualified retirement plan as an eligible rollover distribution. A qualified withdrawal applies to an individual (or the spouse) who was diagnosed with COVID-19 with CDC approved test, or to an individual who experienced adverse financial consequence as result of being quarantine, business closure, layoff, or reduced work hours.

Required Minimum Distribution waived for 2020

For 2020 year, the CARES Act waived all required minimum distribution from a qualified retirement plan or IRA for owner who has reached age 72, regardless of whether the taxpayer has been impacted by COVID-19.

Charitable Contribution

The CARES Act added a deduction of \$300 of charitable contributions to the calculation of gross income to provide tax incentives for making charitable organization for 2020 tax year. Furthermore, for 2020 year, individuals can claim unlimited itemized deduction for charitable contribution (normally, charitable contribution is limited to 60% of adjusted gross income). In the case of corporation, the usual 10% adjusted gross income limitation has been increased to 25% for 2020 years.

Student Loans Paid by Employer

The CARES Act provide an exclusion of up to \$5,250 from income for payments of an employee's education loan, if paid by employer, prior to January 1, 2021. The payment can be made to employee or directly to the lender.

The CARES Act also provided smaller tax provisions that we have not included the summary above as they pertain to specific situation and are generally not applicable to our clients.