Tax Alert: Coronavirus Aid, Relief and Economic Security Act

Updated April 8, 2020

On March 27, 2020, President Trump signed the $2 trillion Coronavirus Aid, Relief and Economic Security Act (the "Act"). The Act provides a number of tax benefits to individuals and businesses.

Cash Rebates:

Coronavirus recovery rebate checks of up to $1,200 for individual taxpayers ($2,400 for married couples filing jointly) will be issued, with an additional $500 payment for every child. The payments are reduced by $5 for each $100 a taxpayer's adjustable gross income exceeds $75,000 ($150,000 for married filing jointly and $112,500 for head of household). The payments are completely phased out for individuals with adjusted gross income in excess of $99,000 and married filing jointly couples with adjusted gross income in excess of $198,000. Nonresident alien individuals and those who are claimed as a dependent of another are ineligible for the payments. Eligibility will generally be based on a taxpayer's most recently filed tax return (either 2019 or 2018). Individuals who are not required to file a tax return are still eligible for the recovery rebate checks.

Employer Payroll Tax Deferral *(updated April 8, 2020)*:

The Act will allow employers and self-employed individuals to defer paying the employer portion of the social security payroll tax (6.2 percent). The deferral period will run through December 31, 2020. One-half of the deferred payroll taxes must be paid over to the Treasury by December 31, 2021, with the remaining one-half due December 31, 2022. Please note that the deferral of such taxes is not available to employers that receive any loan forgiveness pursuant to the terms of the Paycheck Protection Program under Section 1102 of the Act or to employers that receive forgiveness of loans issued by federal agencies in accordance with Section 1109 of the Act.

Employee Retention Credit *(updated April 8, 2020)*:

In addition to payroll tax deferral, the Act provides certain employers with tax credits for qualified wages paid to employees during the period beginning of March 13, 2020 through December 31, 2020. The credit is equal to fifty percent of qualified wages and is capped at $5,000 per employee. Employers must meet certain criteria in order to qualify for the credit. An eligible employer is one that has carried on a trade or business during calendar year 2020 that either (i) has fully or partially suspended operations in response to governmental orders due to COVID-19 or (ii) has gross receipts for the quarter in year 2020 that are less than fifty percent of gross receipts for the same calendar quarter of year 2019. Please note that the employee retention credit is not available to employers that receive any loan forgiveness pursuant to the terms of the Paycheck Protection Program under Section 1102 of the Act or to employers that receive forgiveness of loans issued by federal agencies in accordance with Section 1109 of the Act.

Advance Refunding of Credits *(updated April 8, 2020)*:

The Act provides for the advance payment of the employee retention credit and the paid sick and child care leave credits authorized under the Families First Coronavirus Response Act ("FFCRA"). This advance payment from the Treasury to employers is designed to aid employers in paying employee wages. The Internal Revenue Service has published Form 7200, Advance Payment of Employer Credits Due to COVID-19, which employers may use to request an advance of such credits. Please note that while an employer may claim both the employee retention credit under the Act and the tax credits for qualified leave wages under the FFCRA, an employer may not claim such credits for the same wages.

Individual Retirement Accounts:

The 10 percent early withdrawal penalty applicable to qualified retirement accounts is waived for distributions of up to $100,000 so long as a withdrawal from a retirement account is for a coronavirus-related distribution. The income tax applicable to such withdrawal will be paid over a three-year period. The Act also waives the required minimum distribution rules for certain defined contribution plans and individual retirement accounts for calendar year 2020.

Employer Student Loan Payments:

The Act provides tax-free treatment for employer payment of employee student loans. Employers may contribute up to $5,250 annually to each employee on a tax-free basis. The provision applies to student loan payments made from the date of the Act's enactment through the end of 2020.

Charitable Contributions:

Taxpayers may deduct up to $300 of charitable contributions in calculating adjusted gross income for the 2020 tax year. This will provide a tax benefit even to those who do not itemize, as individual taxpayers generally must itemize their deductions in order to enjoy the benefit of a charitable deduction. Charitable contributions made to a private foundation or donor-advised fund are not eligible, however.

Additionally, the limitation preventing individual taxpayers from claiming charitable deductions in excess of 50 percent of adjusted gross income is eliminated for 2020.

The limit on deductible charitable contributions applicable to C corporations is increased from 10 percent to 25 percent.

Business Interest Expense Deduction:

The Act increases the amount of interest expense a business may deduct by expanding the adjusted taxable income limitation from 30 percent to 50 percent for years 2019 and 2020. Businesses may elect to use 2019 adjusted taxable income figures in place of 2020 figures, as 2020 income may be decreased due to the Coronavirus outbreak.

Net Operating Losses:

The 2017 Tax Cuts and Jobs Act (the "TCJA") eliminated net operating loss carrybacks for certain years. Net operating losses arising after 2017 could be carried forward indefinitely (subject to a limitation of 80 percent of taxable income). The Act provides that net operating losses occurring in years 2018, 2019 and 2020 may be carried back five years without limitation. Taxpayers may wish to amend their income tax returns for prior years in order to take full advantage of this provision.

Loss Limitation Adjustment for Non-C Corporation Taxpayers:

The TCJA limited non-C Corporation taxpayers' ability to deduct excess business losses to $250,000 per year ($500,000 married filing jointly). The Act delays the application of the excess business loss limitation until 2021, allowing the deduction of all excess business losses for years 2018, 2019 and 2020.

Corporate Alternative Minimum Tax Credits:

The TCJA repealed the Alternative Minimum Tax ("AMT") for Corporations while allowing corporate taxpayers to claim refundable AMT credits during the period 2018 through 2021. The Act accelerates the allowance of refundable AMT tax credits to tax years 2018 through 2019.

For questions regarding all tax matters, including corporate or business and personal taxes, please contact Donald R. Seifel, Jr. at (860) 548-2676 or drseifel@uks.com, Kathleen H. Rudzik at (860) 548-2698 or krudzik@uks.com or Jonathan L. Canestri at (860) 548-2648 or jcanestri@uks.com.