CARES Act, Families First Act and other recent legislation for COVID-19 relief

On March 18, 2020, Congress passed the Families First Coronavirus Response Act (Families First Act). On March 20, 2020, the IRS issued Notice 2020-18, providing a variety of extensions. These actions were followed by the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, the third phase of the legislative response to the coronavirus pandemic.

Here's a summary of some of the main tax relief provisions and IRS deadline extensions—and what they might mean for you and your clients.

Provisions that affect individuals

2019 federal income tax filing and payment deadlines have been extended.

The statutory due date for filing federal income tax returns (i.e., Form 1040) is extended from April 15, 2020 to July 15, 2020. In addition, taxpayers who owe taxes will not have penalties and interest assessed, provided that payment is received by July 15, 2020. Please refer to the IRS FAQ page for more information on the IRS deadline extensions.

Bottom line: Taxpayers have until July 15, 2020, to file 2019 federal income tax returns and provide payments due for that tax return. The IRS nevertheless encourages taxpayers that are due a refund to file as soon as possible to ensure that refunds are not delayed.

Recovery rebates for individuals will be sent

A rebate was authorized for qualified individuals. The rebate amount is equal to $1,200 ($2,400 for married filing jointly taxpayers). In addition, individuals who have qualifying child dependents can increase their credit amount by $500 for each child under the age of 17.

The rebate amount begins to phase out for individuals whose 2019 adjusted gross income exceeded $75,000. For married filing jointly taxpayers, the phaseout begins when adjusted gross income exceeds $150,000; for head of household taxpayers, the phaseout amount is $112,500. Moreover, individuals who are not US persons for tax purposes, those who do not have a US tax identification number (SSN), and those who can be claimed as dependents by someone else are not eligible to receive the rebate. The law also excludes an estate or trust from receiving the rebate.

Bottom line: Qualified individuals within income thresholds will receive a rebate. Clients should be warned of potential scams. The IRS will never call a client directly or send an email asking a client to verify information in order to receive a rebate payment. Clients should follow the IRS instructions located here for more information on how the IRS will process rebate payments and what steps, if any, clients may need to take in order to receive the payment.

Qualified Retirement Plan (QRP) distributions available for impacted clients

Individuals who were diagnosed with COVID-19—or those with a spouse or dependent who was diagnosed—as well as those who had adverse financial effects due to quarantine, furlough, layoff, or reduction in work hours because of the coronavirus—can withdraw up to $100,000 from IRAs or other qualified retirement plans without the standard penalty or taxes. These distributions are not subject to the 10% early distribution penalty, nor are qualified plan distributions for these purposes subject to the mandatory 20% tax withholding. This provision applies to qualified distributions made between January 1, 2020, and December 31, 2020. For QRP accounts, the plan sponsor may rely on a participant's certification that the conditions for making this distribution are met.

In addition, amounts withdrawn from a retirement account for this reason are considered income received over a three-year period for tax purposes. For example, an individual who withdraws $100,000 in 2020 as a qualified distribution would include one-third of that amount in income for each of the 2020, 2021, and 2022 tax years. Individuals who take these distributions will also have three years to repay the amount to the retirement account, if they choose to do so. Any repayments to the retirement account will be treated as rollovers and do not count against the individual's annual contribution limits.

Bottom line: Clients adversely impacted by the coronavirus can take withdrawals up to $100,000 from IRAs or other qualified retirement plans without the 10% early distribution penalty. These distributions will also not be subject to the mandatory 20% tax withholding.

Qualified Retirement Plan loans available

The maximum amount of qualified retirement plan loans that can be taken due to the coronavirus is increased to the entire vested balance of the plan or no more than $100,000. In addition, the repayment of this loan can be delayed for one year. The one-year delay is taken into account to determine the five-year limit on outstanding loans.

Bottom line: Qualified retirement plan loans up to $100,000 can be taken with a one-year delay in repayment.

Waiver of 2020 Required Minimum Distribution (RMD) requirements

RMD requirements are suspended for 2020. This means that clients required to make distributions from their IRA or qualified retirement plan in 2020 do not have to do so.

Bottom line: Eligible clients (including those who turned 70½ in 2019 with their first RMD due April 1, 2020) are not required to take an RMD for 2020.

Charitable contribution requirement relaxed

For 2020 tax reporting, taxpayers can deduct up to $300 of charitable contributions even if they do not itemize deductions on their tax return. This modification does not apply to 2019 tax returns filed in 2020.

Bottom line: Clients who claim the standard deduction, rather than itemized deductions, can receive a deduction up to $300 for qualified charitable contributions made in 2020. Clients who claim itemized deductions can continue to claim those deductions on Schedule A.

Student loan repayments suspended; employers provided tax deduction to help pay off student loan debt

For tax year 2020, employers can make tax-deductible contributions to pay down an employee's student loan debt. Contributions, subject to the maximum employer education assistance limitation of $5,250, are tax deductible for the employer and tax free to the employee, meaning these payments are excludable from gross income during the tax year 2020.

Federal student loan payments are suspended for six months, as is the interest accrual on federal student loans. Borrowers seeking loan forgiveness receive six months' credit toward the loan forgiveness while payments are suspended.

Bottom line: Payments for qualified education loans during the 2020 year are excludable from gross income subject to a limit of $5,250. Federal student loan payments and interest accruals are suspended for six months.

Provisions that impact business owners

Paycheck Protection Program

Business owners may be eligible for a new Paycheck Protection Program, a forgivable loan program offered through the Small Business Administration (SBA) that must be applied for by June 30, 2020. Guaranteed by the SBA, these loans will have a maximum maturity of 10 years.

Businesses, including sole proprietorships, that have fewer than 500 employees and make a good-faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19 are eligible for the program. Under the Paycheck Protection Program, lenders will generally be able to issue small business loans up to a maximum of the lesser of $10 million, or 2.5 times the average monthly payroll costs over the previous year (excluding annual compensation of amounts over $100,000 per person).

Loans issued under the Paycheck Protection Program have the possibility of having all or a portion of the loan forgiven. To have loan amounts forgiven, the business must maintain the same number of employees (equivalents) in the eight weeks following the date of origination of the loan as it did from either February 15, 2019, through June

30, 2019, or from January 1, 2020, through February 29, 2020. Any debt forgiven pursuant to this provision is not included in taxable income for the year. The maximum interest rate that can be charged for a loan made under this program is 4%.

Bottom line: The program would provide cash-flow assistance through 100% federally guaranteed loans to employers who maintain their payroll during the COVID-19 emergency. If employers who were harmed by COVID-19 between February 15, 2020, and June 30, 2020, maintain their payroll, the Paycheck Protection Program loans would be forgiven.

New payroll tax credit

Businesses are eligible for a new payroll tax credit (provided they are not receiving a covered loan under the Paycheck Protection Program) if their operations have been fully or partially suspended during a quarter either as a result of a governmental restriction or in which revenue in 2020 has less than 50% of the revenue from the same quarter in 2019.

The credit is equal to 50% of wages paid to each employee, up to a maximum of $10,000 of wages per employee. For small businesses (100 or fewer employees), all wages (up to the $10,000 maximum limit per employee) are eligible to count toward the credit. For employers with more than 100 employees, only wages paid to individuals (up to the $10,000 maximum limit per employee) who are not providing services (not working) during a government shutdown, or because business revenues have declined as outlined above, are eligible to count toward the credit. In both cases, wages include qualified health care expenses allocable to those wages.

Bottom line: Wages of employees who are furloughed or face reduced hours as a result of their employer's closure or economic hardship are eligible for a new payroll tax credit. For employers with 100 or fewer fulltime employees, all employee wages are eligible, regardless of whether an employee is furloughed. The credit is provided for wages and compensation, including health benefits, and is provided for the first $10,000 in wages and compensation paid by the employer to an eligible employee.

Delayed payment of employer payroll taxes

With the exception of employers who have debt forgiven by the CARES Act for certain loans provided by the Small Business Administration, employers are eligible to defer payroll taxes from the date of enactment, through the end of the year, until the end of 2021 and 2022. So, 50% of the payroll taxes that would otherwise be due during this period may be deferred until December 31, 2021. The remaining 50% is due on December 31, 2022.

For self-employed individuals, 50% of an individual's self-employment taxes, from the date of enactment through the end of 2020, may be deferred, with 50% of that amount (or 25% of 2020 self-employment taxes) due December 31, 2021, and the remaining deferred amount due on December 31, 2022.

Bottom line: This provision would allow taxpayers to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022.

Note: The package of legislation and notices contains measures impacting all sorts of businesses and personal finance concerns. This article only addresses some and does not cover all provisions included in the CARES Act or state-specific relief that may have also been issued. As always, please consult your tax advisor if you have questions about the CARES Act, the Family First Act, IRS deadline extensions, and state-specific relief in terms of how they may impact a specific situation. It is also important to realize that there may be updates and further legislation forthcoming.

E*TRADE ADVISOR SERVICES