COVID-19 Relief: Overview of the New CARES Act

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law on March 27, 2020. In addition to giving people access to health care treatments, the new law will provide roughly $2 trillion in much-needed financial relief to individuals, businesses, not-for-profit organizations, and state and local governments during the coronavirus (COVID-19) pandemic. Here are some of the key financial relief provisions.

Advance Rebate Payments

The CARES Act provides one-time direct "rebate" payments to individuals and families. These payments are considered advances for a new federal income tax credit that's subject to phaseout thresholds based on adjusted gross income (AGI). The following table summarizes credit amounts and phaseout thresholds:

Credits for Individuals and Families

Filing status	Rebate	Start of AGI-based phaseout threshold
Single	$1,200	$75,000
Head of household	$1,200	$112,500
Married filing jointly	$2,400	$150,000

Families will receive an additional $500 credit — subject to the same phaseout thresholds — for each qualifying child under 17. The credits are phased out by $5 for every $100 of AGI above the thresholds. For example, the credit for a married couple with no children would be completely phased out when AGI reaches $198,000. The credit for a head of household with one child is completely phased out when AGI reaches $146,500.

Many individuals won't need to do anything to receive the advance credit payment. If you previously signed up to have your federal income tax refunds deposited into a bank account, your advance credit payment will come to you that way. The allowable credit amount will be based on your 2019 federal income tax return or your 2018 return if you've not yet filed for 2019. Adjustments can be made when you file your 2020 return. You can claim any credit *under*payment at that time, but the IRS won't claw back any *over*payment. The credit is fully refundable for individuals and families with low or zero federal income tax liabilities. In fact, you need not have any taxable income to collect the credit.

There are still some details about the payments that are unknown at this time. We will keep you updated as information comes out.

Modifications of TCJA Provisions

The CARES Act rolls back several revenue-generating provisions of the Tax Cuts and Jobs Act (TCJA). This will help free up cash for some individuals and businesses during the COVID-19 crisis.

The new law temporarily scales back TCJA deduction limitations on:

- Net operating losses (NOLs)
- Business tax losses sustained by individuals,
- Business interest expense, and
- Itemized charitable deductions by individuals and charitable deductions for corporations.

The new law also accelerates the recovery of credits for prior-year corporate alternative minimum tax (AMT) liability.

To encourage charitable giving, individuals who claim the standard deduction (rather than itemizing) can claim an above-the-line deduction of up to $300 for cash contributions to charities for tax years beginning after December 31, 2019.

The CARES Act also fixes a TCJA drafting error for real estate qualified improvement property (QIP). Congress originally intended to permanently install a 15-year depreciation period for QIP, making it eligible for first-year bonus depreciation in tax years after the TCJA took effect. Unfortunately, due to a drafting glitch, QIP wasn't added to the list of property with a 15-year depreciation period — instead, it was left subject to a 39-year depreciation period (as under prior law). The CARES Act *retroactively* corrects this mistake and allows you to choose between first-year bonus depreciation for QIP expenditures or 15-year depreciation.

QIP refers to any improvement to an interior portion of a nonresidential building if the improvement is placed in service after the building was first placed in service. But it doesn't include any improvement for which the expenditure is attributable to:

- Enlargement of the building,
- Any elevator or escalator, or
- The internal structural framework of the building.

Contact your tax professional for more details and to evaluate whether you should file an amended return to take advantage of the new availability of bonus depreciation or 15-year depreciation for QIP expenditures in prior years.

Employee Retention Credit

The CARES Act creates a new payroll tax credit for employers that pay wages when:

- Their operations are partially or fully suspended because of the COVID-19 pandemic, or
- Their gross receipts decline by 50% or more compared to the same quarter in the prior year.

Eligible employers may claim a 50% refundable payroll tax credit on wages (including health insurance benefits) of up to $10,000 that are paid or incurred from March 13, 2020, through December 31, 2020.

For employers who had an average number of full-time employees in 2019 of 100 or fewer, all employee wages are eligible, regardless of whether the employee is furloughed. For employers who had a larger average number of full-time employees in 2019, only the wages of employees who are furloughed or face reduced hours as a result of their employers' closure or reduced gross receipts are eligible for the credit.

Other rules and restrictions apply. Contact us for more information.

So Much More

The financial relief package under the CARES Act also includes provisions to:

- Significantly expand unemployment benefits for workers,
- Allow IRA owners and qualified retirement plan participants who are adversely affected by the COVID-19 pandemic to withdraw in 2020 up to $100,000 and then recontribute the withdrawn amount within three years with no federal income tax consequences (same as with a withdrawal and a subsequent tax-free rollover),
- Waive required minimum distributions (RMDs) from IRAs and retirement plans that would otherwise have to be taken in 2020 to avoid an expensive penalty,
- Allow for a recipient employee, tax-free treatment for up to $5,250 of employer payments made on the employee's student loans, for payments between now and year end,
- Allow employers to defer their portion of payments of Social Security payroll taxes through the end of 2020 (with similar relief provided to self-employed individuals), and
- Delay implementation of the current expected credit loss (CECL) standard for large public banks until the earlier of the end of the COVID-19 crisis or December 31, 2020.

The CARES Act also expands access to capital for businesses adversely impacted by the COVID-19 crisis. Many of the loan programs will be administered by the Small Business Administration (SBA) and the Federal Reserve. Some loans will be subject to a special oversight board to ensure adherence to the rules — including a ban on stock buybacks — set forth under the new law.

Need Help?

The COVID-19 pandemic has affected every household and business in some way. If you or your business have suffered financial losses, at least some relief may be on the way. Contact us to discuss tax resources that may be available to help you weather this unprecedented storm.

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