



Highlights

- \$1,200 “Recovery Rebates” for Most American Adults
- Waiver of Required Minimum Distributions (RMDs) for 2020
- Enhanced Unemployment Compensation Relief for Individuals
- Increased Liquidity Provisions for Businesses

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SPECIAL REPORT

Summary: Senate Passes the CARES Act (Phase 3 of the Coronavirus Pandemic Relief Efforts)

On March 25, the Senate passed a \$2 trillion emergency aid proposal to stimulate the US Economy in the midst of the Coronavirus pandemic. The House is scheduled to vote on the bill Friday, and then it will go to President Donald Trump, who is expected to sign it. This legislation, H. R. 748, “Coronavirus Aid, Relief, and Economic Security (CARES) Act,” aka the “Phase 3” bill, provides significant tax and non-tax stimulus to individuals and businesses. Below is a brief summary of key provisions.

INDIVIDUAL PROVISIONS

Recovery Rebates

- Rebates of up to \$1,200 for single filers and \$2,400 for joint filers
- Additional \$500 per child.
- Subject to phase-outs beginning at \$75,000/\$150,000 adjusted gross income for single filers/joint filers.
- Credit against 2020 tax but advance rebate based on 2018 or 2019 income tax returns (if already filed).
- Adjusted up or down based on 2020 tax return.
- Applies to individuals with no income or those whose income comes entirely from non-taxable means.

Retirement Plans

- Waiver of the Required Minimum Distribution (RMD) for 2020 regardless of whether the taxpayer has been impacted by the pandemic.
- Waiver of the early withdrawal penalty for certain Coronavirus –related withdrawals from qualified retirement plans up to \$100,000.
- Income attributable to those distributions are subject to tax over three years.
- Amounts distributed can be recontributed within three year period without regard to the annual contribution cap.

Unemployment Compensation

- Establishes a temporary Pandemic Unemployment Assistance program through December 31, 2020, to provide payment to those not traditionally eligible for unemployment benefits (self-employed, independent contractors, those with limited work history and others) who are unable to work as a direct result of the coronavirus public health emergency.
- Provide an additional \$600 per week payment to each recipient of unemployment insurance or Pandemic Unemployment Assistance for up to four months.
- Provide an additional 13 weeks of unemployment benefits through December 31, 2020, to help those who remain unemployed after weeks of state unemployment benefits are no longer available.

Charitable Contributions

- Allows for up to \$300 above-the-line deduction for charitable contributions made by individuals.
- The 60% of adjusted gross income limitation on deductions is suspended for 2020.

Student Loans

- Student loan repayment contributions by the employer for an employee is not taxable to the employee up to \$5,250 annual cap for contributions made prior to January 1, 2021.

BUSINESS PROVISIONS

Net Operating Losses

- Changes to the rules governing net operating losses (NOLs), including a five-year carryback of certain 2018, 2019 and 2020 losses and, temporarily, the ability to fully offset income.
- Changes to the limitation on loss rules for partnerships and sole proprietors (some temporary).

Employee Retention Credit

- Establishes a fully refundable tax credit, tied to payment of employee wages. Against the employer's share of social security taxes.
- Eligible employers would be permitted to claim a 50% credit of wages paid up to \$10,000 per employee.
- Available to employers whose (1) operations were fully or partially suspended due to a COVID-19 related shutdown order, or (2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.
- For employers with more than 100 full-time employees, qualified wages are wages paid to employees when they are not providing services due to COVID-19 related circumstances.
- For employers with 100 or fewer full-time employees, all employee wages qualify for the credit, whether the employer is open for business or subject to a shutdown order.
- For wages paid or incurred from March 13, 2020, through December 31, 2020.

Alternative Minimum Tax Credit

- Acceleration of refund-ability of corporate alternative minimum tax (AMT) credits.

Payroll Tax Deferral

- Employers and self-employed individuals are allowed to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying from date of enactment to December 31, 2020.
- Deferred employment tax is required to be paid 50% by December 31, 2021 and 50% by December 31, 2022.

Business Interest Expense Limitation

- Increases the deductibility limit for business interest expense deduction from 30% of adjusted taxable income to 50% for 2019 and 2020.

Charitable Contribution Limit

- Increases the limit for deductibility of charitable contributions from 10% to 25% of taxable income.

Qualified Improvement Property

- Long awaited technical correction to provisions in the 2017 tax law (TCJA) to treat qualified improvement property as 15-year property under MACRS.
- Eligible for bonus depreciation.
- Retroactive to effective date of TCJA.

BUSINESS LOAN PROGRAMS

SBA 7(a) Program Expansion

- Gives private banking institutions the ability to loan directly to businesses making way for a quicker process to provide funding to businesses.
- Provides ability for lender to make determinations on borrower eligibility and creditworthiness without going through SBA.
- Requires lenders to, instead of determining repayment ability, to determine whether a business was operational on February 15, 2020, and had employees for whom it paid salaries and payroll taxes or a paid independent contractor.

Paycheck Protection Program (PPP) – Forgivable Loan

- Provides forgivable SBA loans to businesses with 500 or fewer employees (generally), including sole proprietors and other self-employed individuals.
- Loan amounts are determined by a formula tied to the business's payroll costs.
- Maximum loan amount is \$10 million.
- Allowable loan uses include payroll, insurance premiums, mortgage, rent and utility payments.
- Loans established between February 15, 2020 and June 30, 2020.
- Forgiveness of loan equal to amount spent by borrower during 8-week period after the origination of the loan on eligible expenses.
- Portion of loans not forgiven are payable over a maximum of 10 years at a maximum of 4% interest.

SBA Express Loan – Repayable Loan

- Provides an accelerated turnaround time for SBA review.
- Increases the maximum loan for a SBA Express loan from \$350,000 to \$1 million through December 31, 2020.
- Grants up to \$350,000 in the form of either a term loan or a line of credit.
- Can be used for various business purposes.
- Interest rate is negotiable but cannot exceed the SBA maximum.

Emergency Economic Injury Disaster Loans (EIDL) - Repayable Loan

- Expands eligibility for access to EIDL loans to Tribal businesses, cooperatives and ESOPs with less than 500 employees or any individual operating as a sole proprietor or independent contractor during 2020.
- Waives personal guarantees on advances and loans below \$200,000.
- Waives requirement that an applicant needs to have been in business for the 1-year period before the disaster.
- Waives the credit elsewhere requirement.
- Establishes an Emergency Grant to EIDL applicants of not more than \$10,000 which must be distributed within three days.
- Applicants not required to repay advance payments even if subsequently denied for an EIDL loan.
- Advanced payment may be used for providing paid sick leave to employees, maintaining payroll, meeting increased costs to obtain materials, making rent or mortgage payments, and repaying obligations that cannot be met due to revenue losses.
- Advanced payment must be considered when determining loan forgiveness if the applicant transfers into a loan made under SBA's Paycheck Protection Program (PPP).

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