# Key Tax Provisions of the CARES Act

On March 25, 2020 the Senate passed the *Coronavirus Aid, Relief, and Economic Security Act (CARES Act*). The legislation includes various tax provisions that are designed to stimulate the economy and provide relief to impacted individuals and businesses. Many individuals will receive tax rebate checks and will have the opportunity to take advantage of expanded deductions. Entities will also see expanded deductions, and many will be able to utilize new payroll tax credits. The following summary lists the individual, corporate, and payroll tax provisions of the legislation.

## Individual Tax Provisions

| Topic | Prior Law | Current Law/Issued Guidance |
|---|---|---|
| Recovery Rebates | N/A | U.S. residents are eligible to receive a tax rebate of $1,200 per taxpayer or $2,400 for a couple that files a joint tax return. An additional rebate of up to $500 is available for each child. The rebate phases out based on the taxpayer's adjusted gross income as reported on the taxpayer's most recently filed tax return. The phaseout range begins at $75,000 for a single taxpayer (or $150,000 for a joint filer) and phases out at a 5% rate. |
| Filing Due Dates | Tax returns and income tax payments for the 2019 tax year were due by April 15th, 2020. Estimated tax payments for Q1 of the 2020 tax year were also due on April 15th, 2020. | 2019 tax returns and estimated tax payments for Q1 2020 will not be due until July 15th, 2020. An extension request is not required to take advantage of the extended deadline. |
| Early Withdrawal of Retirement Funds | Early withdrawal from an Individual Retirement Account (IRA) prior to age 59 ½ was subject to inclusion in gross income plus a 10 percent tax penalty. | Early withdrawals from an IRA for a "coronavirus-related distribution" are exempt from the 10 percent penalty on withdrawals of up to $100,000. Gross income from the distribution may be spread over a three-year period, and amounts may be recontributed to the plan within a three-year period without exceeding the current year maximum contribution to a plan. |

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| | | A "coronavirus-related distribution" is a distribution related to an individual's diagnosis (or their spouse's/dependents' diagnosis) with COVID-19 or adverse financial consequences of being laid off or quarantined. |
| Required Minimum Distributions from Retirement Plans | Individuals who reach age 72 (70 ½ if you reach 70 ½ before January 1, 2020) are generally required to withdraw a minimum amount from a retirement plan and include distributions in gross income. | The minimum required distribution rules are temporarily suspended for the 2020 tax year. |
| Charitable Contributions | Individuals were only able to deduct charitable contributions if they itemized their deductions. The maximum allowable deduction for charitable contributions was limited to 50% of adjusted gross income. | Individuals will be able to deduct up to $300 of charitable contributions in 2020 even if they do not itemize their deductions. The 50% of adjusted gross income limitation is temporarily suspended for the 2020 tax year. |
| Excess Business Loss Limitation | The 2017 Tax Cuts and Jobs Act limited the amount of business losses that were able to be deducted to $250,000 for an individual or $500,000 for a jointly filed tax return. | The excess business loss limitation is temporarily suspended. |
| Business Interest Expense Limitation | The 2017 Tax Cuts and Jobs Act limited the amount of business interest expense that was deductible to corporations, individuals, and pass-through entities. Business interest expense was only deductible up to 30% of Adjust Taxable Income (ATI). ATI is calculated as taxable income before any deduction or income related to depreciation, amortization, interest expense or interest income. | The 30% of ATI limitation is increased to 50% of ATI for the 2019 and 2020 tax years. |
| Immediate Expensing of Qualified Improvement Property | The 2017 Tax Cuts and Jobs Act allowed for the immediate expensing of most property that was placed in service after September $27^{th}$, 2017. However, a drafting error in the Act removed "Qualified Improvement Property" from the list of property eligible for immediate expensing. Qualified Improvement Property generally consists of improvements that have been made to nonresidential real property. Absent a correction to the law, qualified improvement property had to be depreciated over a maximum of 39 years. | Qualified Improvement Property placed in service as of September $27^{th}$, 2017 is now eligible for immediate expensing. Individuals and entities can also amend prior tax returns to claim the additional deduction. |

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| Employer Payments of Student Loans | Employees who received student loan reimbursement (or payment on their behalf by their employer) had to include the amounts received or paid in gross income. | Employees may exclude up to $5,250 of income in 2020 related to student loan reimbursement or payments made by an employer on behalf of the employee. |

## Payroll Tax Provisions

| Topic | Prior Law | Current Law/Issued Guidance |
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| Employee Retention Credit | N/A | A refundable credit is established against the employer portion of payroll taxes for employers that are financially impacted by COVID-19 in the last three quarters of 2020. The credit is calculated as 50% of wages paid to qualified employees, not to exceed $10,000 per employee or the total employer payroll taxes paid for the period.<br><br>For employers with more than 100 employees, the credit is allowed for wages paid during a government ordered shutdown of the business.<br><br>For employers with less than 100 employees, the credit is allowed for wages paid during a government ordered shutdown of the business or during a quarter in which gross receipts declined by at least 50% when compared to the same quarter of the prior year. |
| Delayed Payment of Employer Payroll Taxes | N/A | Employers and self-employed individuals are able to defer payment of the employer portion of payroll taxes that would have been due in 2020. One half the deferred amount must be paid by December 31, 2021, and the remaining half must be paid by December 31, 2022. |

## Corporate Tax Provisions

| Topic | Prior Law | Current Law/Issued Guidance |
|---|---|---|
| Charitable Contributions | The maximum deduction for charitable contributions was limited to 10% of taxable income. | The taxable income limitation is increased from 10% to 25% for the 2020 tax year. |
| Net Operating Losses | The 2017 Tax Cuts and Jobs Act limited the use of Net Operating Losses (NOLs) that were generated after the 2017 tax year. NOLs could only be used to offset up to 80% of taxable income and could not be carried backwards to a previous year. | NOLs that were/are generated in 2018, 2019, and 2020 can be carried backward for five years, which will allow businesses to amend prior tax returns to claim a refund. The 80% of taxable income limitation is also temporarily suspended. |
| Alternative Minimum Tax (AMT) Credits | The 2017 Tax Cuts and Jobs Act repealed corporate AMT. Excess AMT tax credits that existed before the enactment of Tax Cuts and Jobs Act were to be refunded to corporate taxpayers over a four-year period, ending in 2021. | AMT credits that have not yet been refunded are able to be claimed in full before 2021. |
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