

The Check May Soon Be In the Mail: McConnell Introduces Tax Relief Legislation

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On Thursday, Senate Majority Leader Mitch McConnell introduced tax relief legislation, which includes among other benefits, rebate checks to individuals and families. The Coronavirus Aid Relief and Economic Security Act would authorize the Internal Revenue Service to send rebate checks up to \$1,200 for individuals and \$2,400 for married couples, with an additional \$500 per child. The payments would be reduced for individuals with incomes above \$75,000 (\$150,000 married couples), and would be eliminated for those individuals with incomes in excess of \$99,000 (\$198,000 married couples).

In addition, the Internal Revenue Service previously announced a 90-day extension to the normal April 15 deadline for paying incomes taxes for many individuals and corporations (discussed here). The legislation goes further to delay the actual tax filing deadline until July 15, and allows individuals and corporations to postpone paying their estimated tax obligations until October 15. The legislation also allows employers and self-employed workers to pay their 6.2% employer's share of payroll taxes over the next two years. Employers can elect to pay half of their obligation by

December 31, 2021, and the other half by December 31, 2022.

Other tax benefits found in the bill are:

- Companies can immediately write off expenses for physical improvements to real property rather than depreciating over 39 years. This would fix a prior glitch in the Internal Revenue Code and is expected to be a significant benefit to the hospitality industry.
- Businesses with net operating losses from 2018, 2019, and 2020 can carry back those losses up to 5 years, and the taxable income limitation is temporarily removed (i.e., net operating losses can fully offset income).
- The 30% interest expense limitation introduced by the Tax Cuts and Jobs Act will be increased to 50%. This means businesses would be able to deduct interest expense up to 50% of their adjusted taxable income for 2019 and 2020.
- The 10% early withdrawal penalty for disbursements out of qualifying retirement savings will be waived if individuals are responding to coronavirus-related circumstances. The income from the distribution would be recognized over three years rather than in the year of the disbursement, and the withdrawn funds can be recontributed within three years without being subject to the annual contribution caps.
- To encourage charitable gifts, the 50% adjusted gross income limitation on charitable deductions for individuals is suspended, and the 10% limitation for corporations is increased to 25%.

This legislation has not yet been enacted, and has met with criticism by some Democrats. We will continue to monitor this situation and will update you on the progress of this or other tax relief legislation.

Be sure to visit our Taxing Times blog, as well as our Coronavirus (COVID-19) Response Team page, to keep up to date on the latest news.