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A Summary of the Tax Benefits Included in the Senate Passed $2.2 Trillion Stimulus Bill

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Late on March 25, 2020, the Senate passed the Coronavirus Aid, Relief, and Economic Security Act (CARES) Act. This bill includes $2.2 trillion in economic support and is the most expensive legislation passed to date. In addition to enhancing unemployment insurance, supporting small businesses, providing loan forgiveness, and providing federal loans to industries severely impacted by COVID-19, the CARES Act provides tax relief and incentives for both individuals and businesses. The tax relief is geared toward increasing liquidity in the economy by reducing limits on business deductions and tax deferrals - as well as recovery rebates for individuals.

Individual Tax Relief

i. Retirement Plans. Waiver of 10% penalty on early withdrawals from qualified retirement plans for up to $100,000 for COVID-19 related withdrawals. This payment will be made to an individual or their spouse diagnosed with COVID-19 with a CDC-approved test or to an individual who experiences negative financial consequences as a results of business closure, hours reduction, layoff, or quarantine. Any income attributable to such withdrawal will be subject to tax over a three-year period rather than having to recognize the tax fully in the year of withdrawal.

ii. Charitable Contributions. The percent-of-adjusted gross income (AGI) limitations have been increased for charitable contributions. Beginning in the 2020 tax-year, individuals may claim unlimited itemized deductions for charitable contributions (which would typically be limited to 50% of AGI). Additionally, the CARES Act will allow a deduction of up to $300 for charitable contributions made by individuals that do not itemize deductions.

Business Tax Relief

i. Employee Retention Credit. Eligible employers will be granted a credit against their employment taxes in an amount equal to 50% of qualified wages paid to employees not working due to full or partial business shutdown or a significant decrease in gross receipts. This credit will be made available on a quarterly basis; however, the amount of credit (health benefits included) claimed is limited to $10,000 per employee annually.

ii. Payroll Tax Deferral. Under the CARES Act, payroll taxes may be deferred, allowing employers to free up cash flow and retain employees. The period for this deferral will begin when the CARES Act is signed into law and end on December 31, 2020. This deferral will apply to 100% of payroll taxes incurred by employers and 50% of payroll taxes incurred by self-employed individuals. 50% of the deferred payroll taxes will be payable on December 31, 2021 with the other 50% payable on December 31, 2022.

iii. Net Operating Losses. Businesses will be permitted a five-year carryback of net operating losses (NOLs) that arise from a business in 2018, 2019, or 2020. This means that businesses will be allowed to amend previous tax returns dating back to 2013 to take advantage of the carryback. This is a change from current law, which provides that only farming NOLs may be carried back (with a 2-year limitation). The bill will also allow pass-through entities and sole proprietors to take advantage of this NOL carryback. Lastly the CARES Act will allow NOL´s arising prior to January 1, 2021 to fully offset income (as opposed to 80% under current law).

iv. Refundable Minimum Tax Credits. Under current law, the refundable portion of minimum tax credits was previously limited to 50% of the excess from 2018-2020 and fully refundable in 2021. The CARES Act has moved up the year for the which the fully refundable credits may be claimed to 2019.

v. Business Interest Expense Limitation. The CARES Act will increase the limit on allowable deductions for business interest to 50% of the taxpayers adjusted taxable income for 2019 and 2020. The limit on such allowable deductions under current law is 30%.

vi. Qualified Improvement Properties. The Tax Cuts and Jobs Act (TCJA) allows for 100% bonus depreciation to apply to all modified accelerated cost recovery system (MACRS) property with a recovery period equal to 20 years or less. The TCJA eliminated the three categories of 15-year improvement properties (leasehold improvement properties, retail improvement properties, and restaurant property) but failed to reclassify them all as 15-year properties. As a result, qualified improvement properties reverted to depreciation over 39-years and thus were no longer qualified for bonus depreciation. The CARES Act corrects this congressional oversite by defining all qualified improvement property as 15-year property and thus allowing for 100% of improvement costs incurred during the year to be deducted. This change will be retroactively applied to property acquired and placed in service after September 27, 2017 as if included in the TCJA.

vii. Excise Tax Relief. The CARES Act includes a temporary exception from alcohol excise tax use in hand sanitizer produced or directed by the FDA in connection with the pandemic. This exception will only apply to 2020 and also suspends excise tax on aviation and kerosene used for aviation fuel.

We will continue to monitor the CARES Act as it moves through the House and provide you with any updates as they become available.

Be sure to visit our Coronavirus (COVID-19) Response Team page to keep up to date on the latest news.