



## Summary of CARES Act and Families First Coronavirus Response Act

This document provides a brief summary of tax provisions contained in the Coronavirus Aid, Relief and Economic Security (CARES) Act, [H.R. 748](#), and the Families First Coronavirus Response Act, [H.R. 6201](#). Further research and analysis are recommended based on each client's facts and circumstances.

### Coronavirus stimulus rebates

Individuals will receive a tax credit of \$1,200 (\$2,400 for joint filers) plus \$500 for each qualifying child. The credit begins to phase out for taxpayers with adjusted gross income (AGI) above \$150,000 for joint filers, \$112,500 for heads of households and \$75,000 for other individuals.

Stimulus rebates are being treated as advance refunds of a 2020 tax credit. Taxpayers will reduce the amount of the credit available on their 2020 tax return by the amount of the advance refund they receive.

The credit is not available to nonresident aliens, individuals who can be claimed as a dependent by another taxpayer and estates and trusts.

### Payroll tax credit refunds

Subject to limitations and exceptions, employers of less than 500 employees are required to provide mandatory sick time and paid family leave but are eligible for payroll tax credits to offset the costs. Eligible self-employed individuals also qualify for the credits. Healthcare providers and emergency responders are excluded; employers with fewer than 50 employees can be exempted.

The paid leave is available for up to 10 weeks. The first 10 days of the leave may consist of unpaid leave or accrued paid time off. The amount paid per day is calculated based on the "two-thirds rule" discussed in H.R. 6201. The credit is generally available for up to \$200 in wages for each day an employee receives qualified family leave wages. A maximum of \$10,000 in wages per employee would be eligible for the credit.

Two weeks of sick pay must be paid when the employee is unable to work for coronavirus-related reasons. The amount of the sick pay depends on many factors, with the maximum being \$511 per day (\$5,110 in total) or \$200 per day (\$2,000 in total) based on the exact reason the employee is unable to work.

The credits can be refunded in advance using forms and instructions the IRS will provide. The IRS is instructed to waive any penalties for failure to deposit payroll taxes if the failure was due to an anticipated payroll tax credit.

### Employee retention credit

Eligible employers are allowed a credit against employment taxes equal to 50% of qualified wages (up to \$10,000 in wages) for each employee.

Employers that have gross receipts that are less than 50% of their gross receipts for the same quarter in the prior year are also eligible, until their gross receipts exceed 80% of their gross receipts for the same calendar quarter in the prior year.

For employers with more than 100 employees, wages eligible for the credit are wages that the employer pays employees who are not providing services due to the suspension of the business or a drop in gross receipts. For employers with 100 or fewer employees, all wages paid qualify for the credit.

## Retirement plans

Taxpayers can take up to \$100,000 in coronavirus-related distributions from retirement plans without being subject to the Sec. 72(t) 10% additional tax for early distributions. Eligible distributions can be taken up until Dec. 31, 2020.

Coronavirus-related distributions may be repaid within three years. Any resulting income inclusion would be subject to tax over three years.

Existing loans of up to \$100,000 from qualified plans, and repayment can be delayed for one year.

The required minimum distribution rules in Sec. 401 are temporarily suspended for 2020. The bill delays 2020 minimum required contributions for single-employer plans until 2021.

## Charitable deductions

There is an above-the-line charitable deduction for 2020 (not to exceed \$300).

AGI limitations are modified for charitable contributions for 2020, to 100% of AGI for individuals and 25% of taxable income for corporations (increased from 10%). The food contribution limits increase from 15% to 25%.

## Net operating losses (NOLs)

For tax years beginning before 2021, the 80% income limitation for NOL deductions is temporarily repealed.

For losses arising in tax years 2018, 2019 and 2020, a five-year carryback is allowed (taxpayers can elect to forgo the carryback). This law also applies to pass-through businesses and sole proprietorships.

## Other changes

**Excess loss limitations:** The Sec. 461(l) excess loss limitation is repealed. Sec. 461(l) was added to the Code by the Tax Cuts and Jobs Act (TCJA), and it disallows excess business losses of noncorporate taxpayers if the amount of the loss exceeds \$250,000 (\$500,000 for married taxpayers filing jointly).

**Interest limitation:** For tax years beginning in 2019 and 2020, Sec. 163(j) is amended to increase the adjusted taxable income percentage (ATI) from 30% to 50%. Taxpayers can elect to calculate the interest limitation using 2019 ATI rather than the current year.

**Qualified improvement property:** A technical correction was made to the TCJA regarding qualified improvement property under Sec. 168 by making it 15-year property. These improvements can now be expensed immediately.

**Corporate alternative minimum tax (AMT):** The AMT credit for corporations is now a refundable credit for the 2018 and 2019 tax years.

**Payroll tax delay:** Payment is delayed by 50% for 2020 employer's share of Social Security payroll taxes until Dec. 31, 2021; the other 50% will be due Dec. 31, 2022. For self-employment taxes, 50% will not be due until same dates.

**Aviation taxes:** Various aviation excise taxes are suspended until 2021.

**Health plans:** The rules for high-deductible health plans (HDHPs) are amended to allow them to cover telehealth and other remote care services without charging a deductible. Additional over-the-counter items now qualify.

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