



27 FAQs ABOUT CHANGES THE CARES ACT MADE TO TAXES IN 2020

The Coronavirus Aid, Relief, and Economic Security (CARES) Act is a \$2.3 trillion relief bill that was instituted to stabilize the economy and prevent Americans from suffering financial distress following the coronavirus pandemic. The CARES Act provides payments to individuals, forgivable loans to small businesses, penalty-free retirement distributions for those who need them, and tax relief for many individuals. Read on to learn more about how the CARES Act may affect your taxes this year.

1. WHAT TAX RELIEF DOES THE CARES ACT PROVIDE?

The CARES Act provides a variety of tax relief options for individuals and businesses to help ease the financial burden caused by the global pandemic. A variety of measures were put in place to eliminate certain payments of taxes, fees, and penalties and to defer payments. Tax relief provisions in the CARES Act include:

- Postponed tax filing and payment deadline for income taxes.
- Deferral of employer-side Social Security taxes and self-employment taxes.
- Refundable payroll tax credit of up to 50% per employee.
- Recovery rebate payments to individuals and families.
- Eliminated penalties on qualified retirement plan distributions made in 2020.
- Eliminated required minimum distributions from retirement accounts in 2020.
- Increased interest deduction.
- Increased charitable tax deduction.
- Increased business loss deduction cap.
- Waiver of certain excise taxes.

2. WHAT IS THE DEADLINE TO FILE INCOME TAXES?

The federal income tax filing deadline has been delayed until July 15, 2020, three months after the original deadline date. People will have an extra three months to file their taxes. Additionally, this change gives people an extra three months to pay their taxes without incurring any extra interest or penalties.

This change applies to *federal* income taxes. Many states have passed similar rules that have delayed *state* income tax returns to the new federal deadline. However, some states are still requiring individuals and businesses to pay any taxes owed based on the previous deadline of April 15, 2020.

3. SHOULD I WAIT TO FILE MY TAXES?

Whether or not you should wait to file your taxes depends on several factors, such as whether your recovery rebate may be impacted negatively if you file now, whether you expect to receive a refund or owe taxes, and whether you have other financial issues to consider.

4. WHAT ARE THE RECOVERY REBATES?

The recovery rebates or economic impact payments are refundable tax credits that most eligible people are receiving through a direct deposit or paper check to help stimulate the economy. They

are technically tax credits for the 2020 taxable year, but they are being advanced to people now to help offset the negative financial effects of the coronavirus pandemic.

The recovery rebates are up to \$1,200 for single tax filers or \$2,400 for married couples. Another \$500 per dependent child age 16 or younger is also available.

5. WILL I RECEIVE AN ECONOMIC STIMULUS CHECK?

A person's adjusted gross income for the tax year 2019 is used to determine eligibility for the recovery rebate. If the person did not file a 2019 tax return, his or her 2018 adjusted gross income on his or her 2018 tax return is used.

To be eligible for an economic stimulus check, you must meet the following guidelines:

- You filed a 2018 or 2019 income tax return if you were required to do so.
- Your adjusted gross income does not exceed the threshold.
- You have a valid Social Security number.

To receive your rebate by direct deposit, the IRS needs to have your current bank account information. If you used the same bank to direct deposit your tax refund in 2019 or 2018, the IRS will already have this information and you will not need to take any further action. If you did not file taxes for these years or did not receive a refund and are otherwise eligible (such as if you had a low income or receive Social Security benefits), you will need to update the IRS with your current bank account information on the IRS website.

Even if the IRS technically has your bank account information because you are on a tax repayment plan with the agency, you will still need to provide bank account information and authorize the deposit of funds into your account.

If you have moved since your last income tax return filing and anticipate receiving a paper check, update the IRS with your current mailing address.

6. HOW MUCH WILL MY RECOVERY REBATE BE?

The maximum recovery rebate for individual filers with income up to \$75,000 is \$1,200. The maximum recovery rebate for head of household filers with income up to \$112,500 for head of household filers is \$1,200. The maximum recovery rebate for married filers is \$2,400 for a couple with income up to \$150,000.

For any of these above situations, a person can also receive \$500 per dependent child under the age of 16. There is no maximum number of children.

The recovery rebate amount begins to phase out after filers meet the incomes described above. The rebate is phased out once filers reach the following thresholds:

- \$99,000 for individual filers
- \$146,500 for head of household filers with one child
- \$198,000 for married filers with no children
- \$218,000 for married filers with two children

The credit phases out at a rate of 5% of your adjusted gross income over the threshold amounts for every \$1,000 above this amount. Therefore, the amount of your rebate is reduced by \$50 for every \$1,000 you make above the threshold.

7. WHEN WILL I RECEIVE MY REBATE?

Millions of Americans have already received their rebates. Millions more were notified that their paper checks would be mailed beginning April 24, 2020. However, it is anticipated that it will take several more months before all of the rebates are delivered. The paper checks will be mailed out in order of adjusted gross income from lowest to highest, so people with lower incomes will receive their checks faster than those with higher incomes.

8. CAN I FILE TAXES NOW TO RECEIVE MY REBATE?

Yes. If you have not filed taxes in 2018, you can file taxes now to make yourself eligible for the rebate. The IRS encourages you to do so.

9. WHICH PARENT RECEIVES THE DEPENDENT REBATE AMOUNT?

If parents are divorced or were never married, the parent who claims the child on his or her tax return will receive the dependent rebate amount.

10. WILL THE ECONOMIC STIMULUS CHECK BE TAXED ON MY TAX RETURN NEXT YEAR?

No. Your tax refund will not be reduced by the amount of your economic stimulus check next year. The payment is technically a 2020 tax credit. It is just advanced to you sooner so that you can use it sooner.

11. WHAT IF MY INCOME INCREASES IN 2020 AND I RECEIVE A REBATE FOR MY 2018 OR 2019 INCOME?

If your income increases in 2020 so that it exceeds the maximum income limit, you can still receive your recovery rebate based on your 2019 or 2018 adjusted gross income. You will not be required to pay back the rebate when you file your 2020 income tax return.

12. WHEN DO EMPLOYERS HAVE TO PAY THE EMPLOYER-SIDE LIABILITY OF FEDERAL SOCIAL SECURITY TAXES UNDER THE CARES ACT?

Most employers are required to take out 6.2% of an employee's gross wages for Social Security taxes. Employees must also pay a portion of these taxes from their remaining wages. Employers are typically required to submit these withdrawn amounts to the government. However, the CARES Act allows employers to defer payments of their employer-side Social Security tax. Fifty percent of their liability can be deferred until Dec. 31, 2021. The remaining balance must be paid by Dec. 31, 2022.

This option is available without any penalty as long as the amounts are paid by the deadlines listed above. However, the option is not available if the employer received a forgivable loan from the Small Business Administration or the US Treasury Program Management Authority. All employers other than those who received a forgivable loan are eligible for the deferral. Additionally, employers who have received a Paycheck Protection Program loan that has not been forgiven can defer the payment of these taxes until the date it receives notice the loan is forgiven and will not incur penalties for failure to deposit or pay. The amounts that had already been deferred are subject to the same payment dates as other deferred payments.

13. CAN SELF-EMPLOYMENT TAXES BE DEFERRED?

Like with the employer-side Social Security taxes, self-employment taxes on net earnings can also be deferred so that 50% is paid by Dec. 31, 2020 and 50% is paid by Dec. 31, 2022. As long as payments are made according to this schedule, self-employed individuals will not face a failure to deposit or pay penalty.

14. WHICH EMPLOYERS CAN RECEIVE A 50% PAYROLL TAX CREDIT?

The CARES Act provides a credit for eligible employers equal to 50% of qualified wages. Eligible employers include:

- Employers in business in 2020.
- Employers whose business operation is fully or partially suspended due to COVID-19 government shelter-in-place orders or whose gross receipts declined by 50% or more from the same quarter last year because of the COVID-19 pandemic.

The refundable credit for each employee is 50% of the employee's qualified wages, subject to a maximum of \$10,000, which can result in a credit of \$5,000 per employee. Employers with more than 100 employees can claim the credit for employees who were retained but are unable to currently work because of the crisis. Employers with 100 or fewer employees can claim the credit for all employees.

15. IF AN EMPLOYER RECEIVES A LOAN FROM THE PAYCHECK PROTECTION PROGRAM, CAN IT TAKE THE PAYROLL TAX CREDIT?

No. If an employer receives a Paycheck Protection Program loan, it cannot take the 50% payroll tax credit.

16. HOW ARE NET OPERATING LOSSES TREATED UNDER THE CARES ACT?

The IRS has issued guidance on tax relief for businesses, individuals, trusts, and estates with net operating losses. These relief measures include:

- The carryback period of net operating losses that occurred between Dec. 31, 2017 and Dec. 31, 2020 is waived.
- Certain forms of foreign income that are usually subject to transition tax are disregarded as income during the five-year carryback period.
- Businesses are given the option to waive, reduce, or revoke an election to waive a carryback period for taxable years that began before Jan. 1, 2018 and ended after Dec. 31, 2017.
- Businesses are given a six-month extension to file for a carryback of a net operating loss that ended on or before June 30, 2019.

17. WHAT ABOUT TAX CREDIT CARRYFORWARD AND ALTERNATIVE MINIMUM TAX LIABILITY AFFECT ME?

Businesses that have liability for tax credit carryforwards and alternative minimum tax can make claims for larger refundable tax credits than they would have been able to before passage of the CARES Act.

18. ARE ANY EXCISE TAXES WAIVED UNDER THE CARES ACT?

Excise tax for alcohol used to make hand sanitizer is waived for the 2020 tax year. Aviation excise taxes are also waived until Jan. 1, 2021.

19. HOW DOES THE CARES ACT AFFECT DEDUCTIONS FOR CHARITABLE GIFTS?

The CARES Act modified charitable gift tax deductions in three main ways:

1. There is now an above-the-line charitable gift tax deduction of \$300 for cash donations that you can claim even if you do not itemize your deductions.
2. You can make a qualified charitable distribution of \$100,000 or less from your IRA in 2020 to a qualified charity and it will not be treated as taxable income.
3. The limits on charitable contributions have now been raised. Typically, the individual limit for filers who itemize their deductions is 60% of their adjusted gross income. This is now 100% of AGI. Corporations' charitable contribution limits have also been increased from 10% of their taxable income to 25% of their taxable income.

20. WHAT IS THE EXPANSION OF THE INTEREST DEDUCTION?

The net interest deduction limitation typically limits the ability of a business to deduct interest paid on its tax returns to 30% of earnings before interest, tax, depreciation, and amortization. However, this has been adjusted to 50% for 2019 and 2020.

21. HOW IS THE BUSINESS LOSS DEDUCTION CAP AFFECTED?

Pass-through entities, sole proprietors, and other non-corporate taxpayers will not be subject to the limits on the deductibility of excess losses mandated in the Tax Cuts and Jobs Act for tax years from 2018 to 2020. This will allow businesses to amend their previous returns and potentially receive refunds by claiming these full deductions.

22. DO I HAVE TO TAKE REQUIRED MINIMUM DISTRIBUTIONS FROM MY RETIREMENT ACCOUNTS IN 2020?

No. You do not have to take RMDs in 2020 under the CARES Act. If you already received an RMD, you may be able to repay it to your plan without being taxed on the RMD.

23. WILL I OWE TAXES OR PENALTIES ON A DISTRIBUTION FROM MY RETIREMENT PLAN UNDER THE CARES ACT?

If you are under age 59 and one-half, you can take a distribution from your retirement plan under the CARES Act without paying a 10% early withdrawal penalty or 20% mandatory income withholding fee if you meet one of the following conditions:

- You or your spouse was diagnosed with COVID-19.
- You have suffered financially because of the COVID-19 pandemic, such as being laid off or having reduced hours.

You can recontribute your funds to your plan within the next three years if you would like to, regardless of the year's contribution limit.

Whether you will be taxed on your distribution depends on whether you were taxed on the money you contributed to your account. You will be taxed on earnings.

24. HOW DOES THE CARES ACT AFFECT QUALIFIED MEDICAL EXPENSES?

Funds can be withdrawn tax-free from Health Savings Accounts (HSAs), Flex Spending Accounts (FSAs), and Health Reimbursement Arrangements (HRAs) to pay for qualified medical expenses. Expenses for over the counter medication are now qualified medical expenses. The CARES Act eliminates the restriction that only prescription medications qualify. Payments for menstrual care products are also qualified medical expenses.

25. ARE UNEMPLOYMENT BENEFITS TAXABLE?

Yes. Unemployment benefits are taxable and will continue to be taxable. The CARES Act grants \$600 in weekly unemployment benefits to recipients in addition to the normal benefit. These extra funds are also subject to tax.

26. ARE STUDENT LOAN PAYMENTS THAT MY EMPLOYER PAYS CONSIDERED PART OF MY TAXABLE INCOME?

No. The CARES Act allows employers to contribute a maximum of \$5,250 on an annual basis to repay an employee's student loans. This contribution is tax-free to the employee and can be made to the student loan servicer or directly to the employee. The provision applies to student loan payments the employer made after the CARES Act was enacted and until Dec. 31, 2020.

27. WHERE CAN I FIND OUT MORE?

The CARES Act is a large bill that contains various provisions that may affect your tax situation. Speak to your tax adviser or a tax attorney to learn how these recent changes may affect you and to receive tax planning advice.