

A SYNOPSIS OF THE CARES ACT

March 27, 2020



President Trump recently signed the Coronavirus Aid, Relief and Economic Security (CARES) Act, which, at \$2.2 trillion, is the most expensive piece of federal legislation in history.

The CARES Act is designed to make a large impact on the economy by providing loan forgiveness, small business support and federal loans to industries impacted by COVID-19. It also provides tax incentives and tax relief to both individuals and businesses. The Act is over 800 pages long, so there are provisions that will impact nearly every individual in some way. The following are highlights that will affect many individuals and businesses.

A Quick Review

- \$2.2 Trillion Stimulus Package
- Business Tax Relief
- Recovery Rebates for Individuals
- Enhanced Charitable Deductions

Recovery Rebates

The most publicized provision of the Act provides for recovery rebates for individual taxpayers. These rebates are advance refunds of credits against 2020 taxes and are \$1,200 for individuals or \$2,400 for joint filers. In addition, there is a \$500 credit for each child. However, the amount of each rebate is reduced by \$5 for each \$100 in excess of the threshold amount. The threshold amount is based on 2018 adjusted gross income

(AGI), unless a 2019 return has already been filed. The phaseout begins at \$75,000 for single taxpayers, \$112,500 for heads of households and \$150,000 for joint filers. The rebate is completely phased out for singles with AGI over \$99,000, heads of households over \$136,500 and joint filers over \$198,000.

Retirement Plans

The Act waives the 10 percent penalty on early withdrawals up to \$100,000 from qualified retirement plans for coronavirus related distributions made during the 2020 calendar year. A coronavirus related distribution is one made by someone (or their spouse) diagnosed with COVID-19, or someone who experiences adverse financial consequences as a result of quarantine, business closure, layoff or reduced hours due to the virus. Income from the distributions will be taxed over a three-year period and taxpayers may recontribute withdrawn amounts within three years.

The Act also waives all required minimum distributions for 2020.

The Act provides for pension funding relief for failures to meet contribution requirements to defined contribution plans during 2020.

Charitable Contributions

There is a provision providing for incentives for charitable contributions made in the 2020 tax year by allowing an above the line deduction of up to \$300 for charitable contributions made by individuals.

Also, for the 2020 tax year only, the 50 percent of AGI limit for contributions is repealed. Thus, there is no limit based on AGI. For C corporations the 10 percent limit is raised to 25 percent.

Business Tax Relief

Employee Retention Credit

Employers are allowed a credit against employment taxes equal to 50 percent of qualified wages paid to employees who are not working due to the employer's full or partial cessation of business or a significant decline in gross receipts. The credit is limited to \$10,000 per employee and is for wages paid between March 12, 2020 and January 1, 2021.

Payroll Tax Deferral

Payroll taxes due from the date of enactment until December 31, 2020 are deferred. Half will be due December 31, 2021, and the remainder will be due December 31, 2022.

Net Operating Losses

In another provision to ease business cash-flow issues, the Act provides for a five-year carryback of net operating losses that arose in 2018, 2019 or 2020. Carrybacks were eliminated by the Tax Cuts and Jobs Act (TCJA), however, now businesses can amend tax returns back to 2013 to take advantage of this provision. The bill expands the use of carrybacks to sole proprietors and passthrough entities (partnerships and S corporations).

Business Interest Expense Limitation

The TCJA had limited the amount of interest deduction a business could take to the amount of interest income plus 30 percent of adjusted taxable income. This limit does not apply to businesses with an average annual gross receipts amount of \$26 million (for 2020). The bill increases this limit to 50 percent of adjusted taxable income for either 2019 or 2020.

Qualified Improvement Property

This technical correction from the TCJA allows 100 percent bonus depreciation for many improvements made to restaurants and small businesses. The effective date for this change is for property placed in service after September 27, 2017 so that businesses can claim this depreciation on an amended return or for the 2019 tax year. Like the operating loss provision, this provision may provide businesses with much needed cash flow.

For questions regarding the CARES Act contact your partners at Redbridge Financial.



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