Cape Coral
Accounting
Service, Inc.

March 30, 2020

Dear Clients:

Right now, your highest priority is the health of those you love and yourself. But if you have time to read about some non-medical but important matters related to the health crisis, here is a summary of IRS action already taken and federal tax legislation already enacted to ease tax compliance burdens and economic pain caused by COVID-19, commonly referred to as Coronavirus.

The IRS almost immediately pivoted to a policy that provides the following to all taxpayers—meaning all individuals, trusts, estates, partnerships, associations, companies or corporations regardless of whether or how much they are affected by COVID-19:

1. For a taxpayer with a Federal income tax return or a Federal income tax payment due on April 15, 2020, the due date for filing and paying is automatically postponed to July 15, 2020, regardless of the size of the payment owed.

2. The taxpayer does not have to file Form 4686, automatic extensions for individuals, or Form 7004, certain other automatic extensions, to get the extension.

3. The relief is for (A) Federal income tax payments (including tax payments on self-employment income) and Federal income tax returns due on April 15, 2020 for the person's 2019 tax year, and (B) Federal estimated income tax payments, including tax payments on self-employment income, due on April 15, 2020 for the person's 2020 tax year.

4. No extension was originally provided for the payment or deposit of any other type of Federal tax including estate or gift taxes or the filing of any Federal information return. However, on March 20th the IRS issued Notice 2020-20 providing relief to all taxpayers who have Federal Gift and Generation-skipping transfer tax returns and payments due on April 15, 2020. a postponed deadline to July 15, 2020. Associated interest, additions to tax, and penalties for late filing or late payment will be suspended until July 15, 2020.

5. As a result of the return filing and tax payment postponement from April 15, 2020, to July 15, 2020, that period is disregarded in the calculation of any interest, penalty, or addition to tax for failure to file the postponed income tax returns or pay the postponed income taxes. Interest, penalties and additions to tax will begin to accrue again on July 16, 2020.

The Internal Revenue Service is fully operational for delivering tax refunds, however other services are extremely limited at this time.

Favorable treatment for COVID-19 payments from Health Savings Accounts. Health savings accounts, HSAs, have both advantages and disadvantages relative to Flexible Spending Accounts when paying for health expenses with untaxed dollars. One disadvantage is that a qualifying HSA may not reimburse an account beneficiary for medical expenses until those expenses exceed the required deductible levels. But IRS has announced that payments from an HSA that are made to test for or treat COVID-19 do not affect the status of the account as an HSA, and do not cause a tax for the account holder, even if the HSA deductible has not been met.

Tax credits and a tax exemption to lessen burden of COVID-19 business mandates. On March 18, President Trump signed into law the Families First Coronavirus Response Act, which eased the compliance burden on businesses. The Act includes four tax credits and one tax exemption that follow.

...***Payroll tax credit for required paid sick leave (the payroll sick leave credit).*** The Emergency Paid Sick Leave Act (EPSLA) division of the Act generally requires private employers with fewer than 500 employees to provide 80 hours of paid sick time to employees who are unable to work for virus-related reasons (with an administrative exemption for less-than-50-employee businesses that the leave mandate puts in jeopardy). The pay is up to $511 per day with a $5,110 overall limit for an employee directly affected by the virus and up to $200 per day with a $2,000 overall limit for an employee that is a caregiver.

The tax credit corresponding with the EPSLA mandate is a credit against the employer's 6.2% portion of the Social Security (OASDI) payroll tax (or against the Railroad Retirement tax). The credit amount generally tracks the $511/$5,110 and $200/$2,000 per-employee limits described above. The credit can be increased by (1) the amount of certain expenses in connection with a qualified health plan if the expenses are excludible from employee income and (2) the employer's share of the payroll Medicare hospital tax imposed on any payments required under the EPSLA. Credit amounts earned in excess of the employer's 6.2% Social Security (OASDI) tax (or in excess of the Railroad Retirement tax) are refundable. The credit is electable and includes provisions that prevent double tax benefits (for example, using the same wages to get the benefit of the credit and of the current law employer credit for paid family and medical leave). The credit applies to wages paid in a period (1) beginning on a date determined by IRS that is no later than April 2, 2020 and (2) ending on December 31, 2020.

...***Income tax sick leave credit for the self-employed (self-employed sick leave credit).*** The Act provides a refundable income tax credit (including against the taxes on self-employment income and net investment income) for sick leave to a self-employed person by treating the self-employed person both as an employer and an employee for credit purposes. Thus, with some limits, the self-employed person is eligible for a sick leave credit to the extent that an employer would earn the payroll sick leave credit if the self-employed person were an employee.

Accordingly, the self-employed person can receive an income tax credit with a maximum value of $5,110 or $2,000 per the payroll sick leave credit. However, those amounts are decreased to the extent that the self-employed person has insufficient self-employment income determined under a formula or to the extent that the self-employed person has received paid sick leave from an employer under the Act. The credit applies to a period (1) beginning on a date determined by the IRS that is no later than April 2, 2020 and (2) ending on December 31, 2020.

...***Payroll tax credit for required paid family leave (the payroll family leave credit).*** The Emergency Family and Medical Leave Expansion Act (EFMLEA) division of the Act requires employers with fewer than 500 employees to provide both paid and unpaid leave (with an administrative exemption for less-than-50-employee businesses that the leave mandate puts in jeopardy). The leave generally is available when an employee must take off to care for the employee's child under age 18 because of a COVID-19 emergency declared by a federal, state, or local authority that either (1) closes a school or childcare place or (2) makes a childcare provider unavailable. Generally, the first 10 days of leave can be unpaid and then paid leave is required, pegged to the employee's pay rate and pay hours. However, the paid leave can't exceed $200 per day and $10,000 in the aggregate per employee.

The tax credit corresponding with the EFMLEA mandate is a credit against the employer's 6.2% portion of the Social Security (OASDI) payroll tax (or against the Railroad Retirement tax). The credit generally tracks the $200/$10,000 per employee limits described above. The other important rules for the credit, including its effective period, are the same as those described above for the payroll sick leave credit.

...***Income tax family leave credit for the self-employed (self-employed family leave credit).*** The Act provides to the self-employed a refundable income tax credit (including against the taxes on self-employment income and net investment income) for family leave similar to the self-employed sick leave credit discussed above. Thus, a self-employed person is treated as both an employer and an employee for purposes of the credit and is eligible for the credit to the extent that an employer would earn the payroll family leave credit if the self-employed person were an employee.

Accordingly, the self-employed person can receive an income tax credit with a maximum value of $10,000 as per the payroll family leave credit. However, under rules similar to those for the self-employed sick leave credit, that amount is decreased to the extent that the self-employed person has insufficient self-employment income determined under a formula or to the extent that the self-employed person has received paid family leave from an employer under the Act. The credit applies to a period (1) beginning on a date determined by IRS that is no later than April 2, 2020 and (2) ending on December 31, 2020.

...***Exemption for employer's portion of any Social Security (OASDI) payroll tax or railroad retirement tax arising from required payments.*** Wages paid as required sick leave payments because of EPSLA or as required family leave payments under EFMLEA aren't considered wages for purposes of the employer's 6.2% portion of the Social Security (OASDI) payroll tax or for purposes of the Railroad Retirement tax.

On March 27, 2020, the President signed into law the CARES Act.

Key points include:

Workers, families and small businesses come first.

- $1,200 checks will be on their way to American families

- Provides vast resources to keep small businesses open, including assistance with cashflow and providing credits for employers to keep employees on payroll

What you should know:

- Money for American families will come in the form of a one-time tax rebate check of $1,200 per individual and $500 per child for those with a valid Social Security Number. There are no earned income or tax liability requirements to receive these rebates. The rebates are available for those with incomes at or below $75,000 for individuals, $112,500 for head of head of household and $150,000 for married couples.

The rebate amount is reduced by $5 for each $100 that a taxpayer's income exceeds the phase-out threshold. The amount of the rebate is completely phased-out for single filers with incomes exceeding $99,000, $146,500 for head of household filers with one child, and $198,000 for joint filers with no children.

Eligibility for checks from the IRS will be based on 2018 and 2019 tax returns, and Social Security, retirement and disability, and Railroad Retirement beneficiaries, they will use information from the Social Security Administration and Railroad Retirement Board.

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

The credit will be reconciled on the taxpayers 2020 tax return by the amount of this advance refund payment. The reconciliation may produce additional credit but for any credit overage, repayment will not be required. This reconciliation may also produce a credit shortage, whereas repayment will be required.

- **Loosens Rules on Retirement Accounts -** American's required to take their RMDs in 2020 will be able to keep their retirement funds in place instead of being forced to cash out to meet the RMD which is suspended for 2020. The 10% early withdrawal penalty is also waived on coronavirus-related early distributions from 401(k)s and IRAs for distributions made at any time during 2020 up to $100,000 and it may be repaid within three years

- The Act also allows **loans of up to $100,000 from qualified plans, and repayment can be delayed.**

For these purposes, an eligible taxpayer is one who has been diagnosed with SARS-CoV2 virus or COVID-19 disease or whose spouse or dependent has been diagnosed with the disease or who experiences adverse financial consequences from being quarantined, furloughed, or laid off, or who has had his or her work hours reduced, or who is unable to work due to lack of child care. Any resulting income inclusion can be taken over three years.

- The Act **delays 2020 minimum required contributions for single-employer plans until 2021.**

- **Provides Another Option for Employers to keep Connected to Their Employees.** Employers of all sizes that face closure orders or suffer economic hardship due to the coronavirus crisis that continue to pay employees that are furloughed may be eligible for a 50% credit on up to $10,000 per employee of wages paid to those employees.

- **Delays Payroll Tax Payments for Employers** - Employers will be able to delay the payment of their 2020 payroll taxes until 2021 and 2022, leading to approximately $300 billion of extra cash flow for businesses.

- **Restores Support for Businesses Suffering Losses** - The Act also allow businesses to carry back losses from 2018, 2019 and 2020 to the previous 5 years, which will allow businesses access to immediate tax refunds.

- **Encourages Businesses to Invest in Improvements** - The Act will fix cost recovery for investments in Qualified Investments in 2018 and 2019 to receive tax refunds now.

- **Excess Loss Limitations** - The Act repeals the Sec. 461(l) excess loss limitation. This provision which had been added to the Internal Revenue Code by the Tax Cuts and Jobs Act, disallowed excess business losses of noncorporate taxpayers if the amount of the loss exceeded $250,000 or $500,000 for married taxpayers filing jointly. Again, this has been repealed.

- **Corporate Alternative Minimum Tax, AMT**, - The Act modifies the AMT credit for corporations to make it a refundable credit for 2018 tax years.

- **Interest Limitation** - For tax years beginning in 2019 and 2020, Sec. 61(j) is amended to increase the adjusted taxable income percentage from 30% to 50% and taxpayers can elect to use 2019 income in place of 2020 for the computation.

- **Aviation Excise Taxes are suspended until 2021**

Charitable deductions - The Act creates an above-the line charitable deduction for 2020, not to exceed $300. This means you do not have to itemize your deductions to take it. The contribution must be in cash. The Act also modifies the Adjusted Gross Income limitations on charitable contributions for 2020, to 100% of the Adjusted Gross Income of Individuals and 25% of taxable income for Corporations. The Act Also Increases the food contribution limits to 25%.

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.**

Additionally, **over-the-counter menstrual care products are added to the list of items that can be reimbursed out of a health savings account, Archer MSA, or health reimbursement arrangement.**

Other provisions of the Act:

- Enhanced **Benefits under the Railroad Unemployment Insurance Act**, providing an additional $600 per week payment to each recipient of railroad unemployment insurance or Pandemic Unemployment Assistance for up to four months

- Similarly, the **Emergency Increase in Unemployment Compensation Benefits** of an additional $600 per week payment to each recipient of unemployment insurance or Pandemic Unemployment Assistance for up to four months.

Additionally, a Temporary **Full Federal Funding of the First Week of Compensable Regular Unemployment** for States with No Waiting Week is available as well as 13 additional weeks of unemployment benefits through December 31, 2020 to help those who remain unemployed after weeks of state unemployment benefits are no longer available.

- **Temporary Financing of Short-Time Compensation Payments in States with Programs in Law** - this is funding to support "short-time compensation" programs, where employers reduce employee hours instead of laying off workers and the employees with reduced hours receive a pro-rated unemployment benefit. This provision will pay 100% of the costs they incur in providing this short-time compensation through December 31, 2020.

- **Student Loans -** This provision of the Act enables employers to provide a student loan repayment benefit to employees on a tax-free basis. The employer may contribute up to $5,250 annually toward an employee's student loans, and such payment would be excluded from the employee's income. The $5,250 applies to both student loan repayments as well as other educational assistance, such as tuition, fees, books, provided by the employer under current law. It applies to any student loan payments made by an employer on behalf of an employee after date of enactment and before January 1, 2021.

844 pages of legislation in the CARES Act alone will undoubtedly leave you with questions.

We will be pleased to hear from you at any time with questions about this information or any other matters.

We wish all of you the very best in a difficult time.

Sincerely,

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