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The Coronavirus Aid, Relief and Economic Security (CARES) Act Has Passed

What you need to know...

The President and Congress have approved a relief package that is designed to push \$2 trillion into the U.S. economy, providing assistance to the millions of Americans and businesses that are feeling the impacts of the Coronavirus. After multiple days of failed negotiations, lawmakers voted to approve the Coronavirus Aid, Relief and Economic Security (CARES) Act, also known as H.R. 748.

This legislation is slated to provide \$250 billion in rebate checks to most Americans, while helping businesses meet payrolls and correct errors in the 2017 tax law. It will also assist with state and local relief efforts in an effort to help our economy work through this challenging health crisis.

Tax Relief for Individuals

Rebate Recovery Checks

- Under this bill, the IRS would send a \$1,200 check to individuals and a \$2,400 check to couples who file joint tax returns, with a \$500 credit for each child. The rebate amounts are advance refunds of credits against 2020 taxes.
- Payments are reduced for those who have incomes above \$75,000 (individuals) and \$150,000 (couples). The rebate amount for those in this scenario is phased out by \$5 for every \$100 in excess of the threshold amount that applies (i.e. individuals vs. couples).
- These relief checks will not be provided to those individuals who make more than \$99,000 annually or couples who make \$198,000 annually.
- Rebate checks would be offset by the amount of unpaid tax debts that are owed by taxpayers.
- Checks would be delivered electronically, with an estimated start date of April 6. If checks have to be mailed or provided as debit cards, the timeline for that will add several weeks for those who are in this scenario.

Retirement Plans

- The bill waives the 10% early withdrawal penalty for any retirement fund distributions up to \$100,000 that were made on or after January 1, 2020, but before December 31, 2020 from qualified retirement plans.



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Retirement Plans (continued)

- For the penalty waiver to be used on a distribution due to Coronavirus it has to occur during the calendar year 2020 to an individual (or spouse of individual) that is:
 - Diagnosed with Coronavirus from a CDC approved test.
 - That is experiencing negative financial consequences due to quarantine, business closure, layoffs, or reduced hours because of the virus.
- Any income that can be attributed to early withdrawal is subject to tax over a three-year period, and the taxpayer may recontribute the withdrawn amounts to a qualified retirement plan without regard to annual caps on contributions if made within three years.
- This bill also waives the minimum required distribution for the calendar year 2020 regardless of whether the person was impacted by the Coronavirus

Charitable Contributions

- This bill will enhance the charitable contributions in the following ways:
 - Allowing individuals to take an above-the-line deduction up to \$300 for charitable gifts during the calendar year 2020.
 - Individuals are able to claim an unlimited itemized deduction for the calendar year 2020, which is normally limited to 60% of Adjusted Gross Income (AGI) (for corporations the deduction limitation is increased from 10% to 25%).

Employer Paid Student Loans

- Employers could provide a tax-free student loan repayment benefit of up to \$5,250 annually towards an employee's student loans.
- The payments would not count as income.

Business Tax Relief

Employee Retention Credit

- Eligible employers will receive a credit against employment taxes that are equal to 50% of the qualified wages paid to employees who are not working due to the Coronavirus.
- These credits are available quarterly, however there is a cap of \$10,000 per employee for all quarters.
- This credit will only be applicable from March 12, 2020 through January 1, 2021.
- The credit would be available to employers whose businesses were disrupted due to virus-related shutdowns and firms experiencing a decrease in gross receipts of 50 percent or more when compared to the same quarter last year.

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Employee Retention Credit (continued)

- The credit is available for employees retained but not currently working due to the crisis. For employers with 100 or fewer full-time employees, all employee wages qualify for the credit. For employers with greater than 100 full-time employees, qualifying wages are wages paid to employees when they are not providing services due to Coronavirus.

Payroll Tax Deferral

- Payroll taxes will be deferred through the CARES Act beginning with the date it was signed and ending on December 31, 2020.
- It provides a refundable payroll tax credit for 50% of employer wages for companies that were either fully or partially prohibited from operating during the Coronavirus crisis.
- The Social Security taxes for employers and individuals who are self-employed can be paid over the following two years, with half of the amount due by December 31, 2021 and the remaining half due by December 31, 2022.

Net Operating Losses

- Under the CARES Act, businesses can carry back losses from 2018, 2019 and 2020 for up to five years.
- Businesses can offset their income by not imposing a taxable income limit on the business due to temporary net operating losses incurred by the crisis.

Business Loan Programs

Paycheck Protection Program

- This is a program that will provide forgivable Small Business Administration loans to businesses who have 500 employees or less. This will include sole proprietors and other self-employed individuals.
- Some of the provisions to the Paycheck Protection Program include:
 - It is a temporary type of SBA Loan.
 - These loans are to be applied for through a local financial institution.
 - Loan size is equal to 250% of the employer's average monthly payroll, not to exceed \$10 million.
 - The loan can be used to refinance recent SBA Disaster loans.
 - There are no personal guarantees and no collateral is required.
 - For any unrelieved amount there will be a 10-year maximum term and a 4% maximum interest rate.

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Paycheck Protection Program (continued)

- There will be no fee to apply and no pre-payment penalties.
- There are additional funds for specific industries (i.e. healthcare).

Emergency Economic Injury Disaster Loans

- This ACT expands the eligibility for access to economic injury disaster loans.
- Some of the provisions for this include:
 - Can be used in addition to “retention” loans. (but only for other purposes)
 - Loans cannot exceed \$2 million.
 - The interest rates will be capped a 3.75%.
 - The repayment term can be up to 30 years.
 - This will be funded by the U.S. Treasury and can be used for working capital issues.
 - There will be relaxed financial information requirements for applicants.
 - Loans that are greater than \$25 million to be secured to the extent that is possible, this can include real estate.
 - There will be no fee to apply and applicants are not obligated to accept the funds.

Other measures in the CARES Act include

- Setting \$150 billion aside for states and localities whose tax revenues are impacted by the extended tax filing date from April 15, 2020 to July 15, 2020.
- Providing \$130 billion to assist the healthcare industry – hospitals, nursing homes, other health care facilities who are weathering this crisis.
- Limits corporate stock buybacks and executive pay for any airline that received relief from the government to stay operational during the crisis.
- Qualified Improvement Property (QIP) technical correction: Provides 100% bonus depreciation for costs associated with interior improvement of non-residential property by changing the tax life from 39-years to 15-years and will be retroactive for improvements that were made after September 27, 2017.

These new laws are complex and have many provisions, please contact us to discuss your unique situation.

As always, our firm is constantly monitoring the ever-changing environment caused by the Coronavirus and working to keep you updated on how the new legislation can impact you and your business. Feel free to call us with any questions.

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