

Dear Clients and Friends:



As you've likely heard, on Friday the President signed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, a massive \$2 trillion stimulus and aid bill aimed to help individuals, businesses, and the economy as a whole in the wake of the COVID-19 pandemic.

We have been reviewing the legislation in detail and how it will affect you. We are outlining the most impactful portions of the legislation below. Some of these provisions are for [Individuals and Married Couples](#) and other provisions apply to [Businesses and Business Owners](#).



### **Individuals and Married Couples**

**Recovery Rebates:** This legislation provides for direct payments to taxpayers known as "recovery rebates". Subject to income phaseouts, these payments consist of:

- \$1,200 for single filers, \$2,400 for married filers, with an extra \$500 for each qualifying child. The Treasury Department will be using the latest tax return on file to determine eligibility.
- Phaseouts begin at \$75,000 Adjusted Gross Income (AGI) and \$150,000 AGI for single and married filers, respectively.
- Note that this is essentially an advance of a tax credit, meaning that if you don't qualify based on your 2018 or 2019 income information on file but subsequently become eligible based on 2020 income, it will be trued up on your 2020 tax return.

**Unemployment compensation:** This legislation has added an additional \$600 per week in federal unemployment compensation to what was already available on the state level. For Missouri, this means unemployed individuals may be eligible for up to \$920 in weekly unemployment benefits (\$320 from the state and \$600 from the federal government). The Act also expands eligibility for unemployment benefits to independent contractors.

**Student loans:** The Act suspends payments on federal student loans through 9/30/2020, during which time interest will not accrue. Voluntary payments will still be permitted.

**Retirement plans:** Taxpayers under 59 ½ are permitted to make up to \$100,000 in distributions from retirement plans without being subject to the 10% early withdrawal penalty if the taxpayer or a family member has been:

- diagnosed with COVID-19 or
  - has experienced hardship from being quarantined, furloughed, laid off, had work hours reduced, or
  - has been unable to work in order to take care of children.
- ❖ Such distributions can be repaid to the plan over three years or, if not repaid, the resulting tax can be paid over three years.
- ❖ This bill also permits loans from employer plans (e.g. 401(k)'s) of up to \$100,000 and increases the eligible amount from 50% to 100% of the vested balance.
- ❖ Payments on the loan may also be delayed for up to one year.

**Required Minimum Distributions (RMDs):** RMDs for 2020 have been suspended. This applies to any RMD that would have otherwise been required to be taken in 2020. RMDs will resume in 2021. If RMDs have already been taken for the year and have been made within the last 60 days, they are eligible to be repaid.

We are developing a list of those of you who have taken the RMD in the last 60 days. We will be in touch with you soon to see if you want to put the RMD back in your IRA and how that process works. This does not apply to Inherited IRAs.

**Charitable deductions:** this legislation has created an “above-the-line” (before AGI) charitable deduction of up to \$300 for taxpayers who take the standard deduction. Such charitable gifts must be made in cash. The Act also temporarily modifies the AGI limitation on charitable contributions for 2020 from 60% to 100% of AGI.



### Businesses and Business Owners

**Payroll Protection Program loans:** The bill creates a partially forgivable loan program via the Small Business Administration for small business owners.

- Loans must be applied for by June 30, 2020 and can be done through existing SBA lenders (i.e. banks). There are detailed requirements for determining eligibility, but most small businesses should be eligible.
- The loan forgiveness calculations require that the business maintain the same number of employees as they did in 2019. Assuming that requirement is met, the eligible amount for forgiveness is equal to payroll costs (subject to some limitations for highly compensated employees), rent, utilities, and group health insurance premiums paid for 8 weeks following loan disbursement.

- Further, loan forgiveness amounts are not considered taxable income.

**Employee retention credit:** This bill creates an Employee Retention Credit for employers who close or experience a significant (>50%) drop in revenue due to the COVID-19 pandemic. These employers are able to take a credit against employment taxes equal to 50% of qualified wages (up to \$10,000 in wages) per employee. This is targeted at businesses that were forced to close or severely limit operations as a result of stay-at-home orders from state and local governments. The goal of this provision is to encourage employers to keep staff on payroll through the closures.

**Payroll tax payments:** employer payroll taxes due in 2020 have been delayed with 50% of the 2020 balance now due on 12/31/2021 and the remaining 50% due on 12/31/2022. For self-employed individuals, this applies to half of the self-employment taxes they would normally pay (i.e. the “employer” half of the 15.3% normally paid).

**Net Operating Losses (NOLs):** NOLs arising in 2018, 2019, and 2020 are now allowed to be carried back up to five years (rather than just being carried forward to future years). The legislation also repeals the 80% income limitation for NOLs for years beginning before 2021.

You can speak to the CPA on our team or consult your own tax preparer for specific tax advice.

As always, we will continue to monitor legislation for how it impacts you and for how you can benefit. Please reach out to our office at 314.802.7232 if you have any questions.

Thank you