

To Our Clients:

Due to the COVID-19 pandemic, the landscape of life and business is changing rapidly and has already had an impact on nearly everyone. We want to help you navigate all the tax changes and keep you informed of federal and state help that is/will be available.

On March 27, 2020, President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act ("**CARES Act**"), which includes tax provisions intended to provide an economic stimulus to both individuals and businesses.

Individuals

Recovery Rebates—Individual US taxpayers will receive economic impact payments of up to \$1,200 for single filers, \$2,400 for joint filers, and \$500 for each qualifying child. This payment begins phasing out by \$5 for every \$100 over \$75,000 of income for single filers, \$150,000 for joint filers, and \$112,500 for heads of household.

The distribution of payments will begin in the next three weeks and will be distributed automatically as a direct deposit or a check by mail, with no action required for most people. The payment will be based on the taxpayer's 2019 return or, if the taxpayer did not file their 2019 return yet, their 2018 return.

Individuals who did not file in either 2018 or 2019 may claim the credit on their 2020 income tax return but will not receive a payment in 2020.

You can check IRS.gov at <https://www.irs.gov/newsroom/economic-impact-payments-what-you-need-to-know> for the latest updates.

Retirement Withdrawals—The 10 percent early withdrawal penalty is waived for retirement plan distributions of up to \$100,000 made from January 1, 2020 to December 31, 2020 for fairly broad coronavirus-related purposes.

To the extent that the distribution is considered income, it would be recognized over three years, so taxpayers will have three years to pay the tax on this "income". If the distribution is paid back to the retirement account within three years, taxpayers can avoid paying the tax.

Additionally, for individuals affected by the coronavirus, loan limits from retirement plans are increased from \$50,000 to \$100,000. For loans due in 2020, the repayment deadline is delayed.

Mandatory Retirement Distributions—Generally, taxpayers of a certain age are required to withdraw minimum amounts annually from certain retirement

plans on accounts, subject to a 50 percent penalty. The CARES Act waives the minimum distribution requirements for 2020.

Unemployment Compensation—Individuals who ordinarily would qualify for unemployment compensation benefits under state law are entitled to the regular amount of compensation available as well as an additional flat-fee amount of \$600 per week.

Typically, workers are entitled to up to 26 weeks of unemployment benefits under state law. CARES provides an additional 13 weeks of benefits.

In addition to these changes, the CARES Act temporarily expands unemployment insurance to cover individuals who are not traditionally covered, including the self-employed, gig-workers, independent contractors, and low-wage workers who can no longer work because of temporary business closures to slow the spread of COVID-19.

Californians can apply for unemployment benefits through the California EDD website at https://www.edd.ca.gov/unemployment/UI_Online_File_a_Claim.htm

Charitable Contributions—Individuals who will take the standard deduction on their 2020 tax return are permitted up to \$300 of above-the-line deductions for charitable contributions made in 2020. For individuals who itemize, the 50 percent of AGI limitation is suspended for 2020.

Consumer Credit Protection—The consumer protection portion of the CARES Act allows taxpayers to defer one or more consumer obligation payments up to 120 days, beginning on January 31, 2020.

For federally backed mortgage loans, taxpayers experiencing a financial hardship due to COVID-19 can request forbearance for up to 180 days by submitting a request to their lender affirming their financial hardship.

In addition to these provisions, no new foreclosures or evictions are allowed for delinquent taxpayers during the COVID-19 crisis.

Student Loans—The CARES Act offers multiple benefits for student loans, including no federal student loan payment, no interest on your federal student loan payments, and no garnishment of wages for student loan debt collection through September 30, 2020.

Businesses

Employee Retention Credit—This new provision allows eligible employers a refundable payroll tax credit for 50 percent of qualified wages paid to employees from March 13, 2020 through December 31, 2020. The credit is provided for the first \$10,000 of compensation, including health benefits paid to an eligible

employee. For more information you can check IRS.gov at <https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act>.

Payroll Tax Deferment—To provide cash flow relief for employers, the payroll tax attributable to Social Security payments (6.2-percent of wages) is deferred. For self-employed individuals, one-half of the 12.4-percent portion is eligible for deferral. The deferred payments would need to be paid in two installments: half due on December 31, 2021, and half due on December 31, 2022.

Small Business Loans—The CARES Act created the Paycheck Protection Program (“PPP”), which expands the Small Business Administration 7(a) loan guaranty program, by providing 100 percent federally guaranteed loans that are partially forgivable to qualified small businesses who maintain their payroll.

Small businesses and other eligible entities may apply for a loan under the PPP if they were harmed during the coronavirus emergency between February 15, 2020 and June 30, 2020. Such business must have been in operation on February 15, 2020.

The Act also made several changes to the Economic Injury Disaster Loan (“EIDL”) Program under section 7(b) of the Small Business Act. EIDL loans are available to small businesses in a declared disaster area to cover economic injury resulting from the disaster. EIDL loans are available up to \$2 million, carry an annual interest rate of 3.75 percent and have a maximum term of 30 years.

Loans up to \$200,000 do not require a personal guarantee, and above \$200,000 must be guaranteed by any owner having a 20 percent or greater interest in the applicant.

The Small Business Administration posted a new website that provides information on all of their loan options for businesses affected by COVID-19. The website can be accessed at www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources.

Expanded Use of Net Operating Losses—This provision expands the use of NOLs by temporarily suspending the 80 percent of taxable income limit for tax years beginning in 2018, 2019, and 2020 and allowing NOLs arising in tax years beginning in 2018, 2019, and 2020 to be carried back up to five years. This carryback capability is also provided to pass-throughs and sole proprietorships that incur NOLs.

Increased Deduction for Business Interest Expense—This provision increases the adjusted taxable income limitation from 30 percent to 50 percent for tax years beginning in 2019 and 2020.

Refund for Corporate AMT—The Act accelerates the ability of corporations to recover their AMT credits and makes the credits refundable in tax years 2018 and 2019.

We hope this information provides you with some guidance in navigating the government's economic stimulus response to the COVID-19 virus - specifically, the CARES Act . We will come through this pandemic (hopefully soon), but in the meantime, it's good to know what benefits are available and what you can do to take advantage of them. Please call or write us if you have any questions about this. We may not know all the answers but we are trying our best to stay on top of this and we are monitoring the situation as it changes day to day.