Additional Supplement for Coronavirus-Related Tax Changes

J.K. Lasser's Your Income Tax 2020
J.K. Lasser's Small Business Taxes 2020
J.K. Lasser's 1001 Deductions and Tax Breaks 2020

The coronavirus — COVID-19 — has necessitated many changes in tax rules impacting 2019 returns, estimated taxes for 2020, and refunds related to taxes in pre-2019 years. To keep you informed and help you handle your 2019 return, your 2020 estimated taxes if needed, and refund opportunities, here are some tax changes of note from the Coronavirus Aid, Relief, and Economic Security (CARES) Act and the Families First Coronavirus Response Act as well as from the IRS. These are only the highlights; details applicable to 2020 returns will be in the 2021 editions of these books. Also keep in mind that more changes may come in the months ahead; visit *jklasser.com* and check for further information from the IRS at *IRS.gov/coronavirus*.

Your 2019 Return

The IRS has extended the filing deadline from April 15, 2020, to July 15, 2020, for individuals and calendar year C corporations. This extension also applies to:

- ***Payment of 2019 taxes due.*** Any amount unpaid by July 15 will begin to accrue interest and penalties, eve if an additional filing extension is obtained.
- ***The first two installments of 2020 estimated taxes.*** Both installments can be made by July 15, 2020, without penalty.
- ***2019 contributions to IRAs and health savings accounts by eligible individuals.*** A filing extension will not provide any additional time to make these 2019 contributions.

If you cannot meet the filing deadline of July 15, 2020, you can request an extension to October 15, 2020. Individuals do so on Form 4868; C corporations use Form 7004. Of course, taxpayers owed a refund for 2019 should file as soon as possible to obtain it.

If you're owed a tax refund related to your 2016 return, a claim must be submitted no later than April 15, 2020. You do not get the benefit of the delayed filing deadline (July 15) for 2019 returns.

Note: *Check with your state to determine whether your state's income tax deadline has been extended.*

Your Rebate Check

The IRS is issuing eligible individuals a recovery rebate check that will be sent by mail or directly deposited in your bank account if the government already has your account information from the previous tax return. The IRS calls these rebates "economic impact payments." The maximum payments are $1,200, or $2,400 for joint filers, plus $500 for each qualifying child under age 17. Eligibility depends on your adjusted gross income (AGI) on your most recent tax return (your 2019 return if you already filed it, or your 2018 return if the 2019 return has not yet been filed). The maximum payment amount applies if your AGI is equal to or under $75,000 if single (or qualifying widow/widower or married filing separately), $112,500 if head of household, or $150,000 if married filing jointly. The payments phase out by $5 for every $100 of income above the threshold amounts, so that no payments are made to singles with no qualifying children with AGI over $99,000, heads of households with one qualifying child with AGI over $146,500, and joint filers with no qualifying children with AGI over $198,000. A married couple with two qualifying children would receive payments until their AGI exceeds $218,000. No check will be given to an individual who is the dependent of another taxpayer.

Individuals whose income does not require them to file returns, such as some Social Security recipients, will receive rebate payments even though no 2018 or 2019 returns have been filed. The IRS is using information on Form SSA-1099 and Form RRB-1099 to generate the payments.

The rebate check is a *refundable tax credit*. This means that when you file your 2020 return, you may be eligible for a check or an additional amount based on your 2020 AGI if it differs from the amount on which the check was figured. But if it turns out that your 2020 AGI is higher than the amount used to figure your rebate check, you do not have to repay anything. The rebate check is not includible in gross income.

Your Paid Leave and Other Government Assistance

If you work for a small business (no more than 500 employees), you can receive COVID-19-related paid sick leave and paid family leave (including leave to care for a child whose school or daycare facility is closed) for 2020. This benefit is not taxable to you.

If you are an employee who has been terminated or furloughed, you are eligible for enhanced unemployment benefits. In addition to the regular amount of unemployment benefits determined by your state, the federal government is paying for an additional $600 per week through July 31, 2020. Benefits may also be received by sole proprietors and independent contractors who are not employees and usually do not qualify for these benefits. Unemployment benefits are included in gross income.

Your Retirement Plans

While funds in your IRAs and qualified retirement plans are designed to provide income for your retirement, if needed you can tap these funds taking note of new tax rules:

- The 10% early distribution penalty for those under age 59½ does not apply for coronavirus-related distributions received in 2020 up to $100,000. "Coronavirus-related distributions" mean those taken by an individual diagnosed with COVID-19, or whose spouse or dependent has been so diagnosed, and those who experience adverse financial consequences as a result of being quarantined, laid off, having reduced hours, or being unable to work due to a lack of child care due to COVID-19.
- Tax on a coronavirus-related distribution can be spread over three years.
- A coronavirus-related distribution can be recontributed within three years. Doing this does not prevent you from making regular contributions to the extent applicable at that time.
- Increased limit on coronavirus-related loans from qualified retirement plans.

Required minimum distributions (RMDs) for 2020 have been waived regardless of whether there's any coronavirus-related need. The waiver also applies to individuals who reached age 70½ in 2019 but did not receive their first RMD in 2019, and thus would have been required to take it by April 1, 2020; the requirement to take this 2019 RMD by April 1 was waived. Voluntary distributions are in no way affected.

Your Business Losses

Many businesses likely will have heavy losses in 2020. Under a law change, the rules for net operating losses arising in 2018, 2019, and 2020 have been changed dramatically. These losses can be carried back to offset 100% of taxpayer income in the previous five years. This can generate a tax refund to help businesses with their cash flow. To obtain refunds related to 2018 and 2019 NOLs, file amended returns for the carryback years. For NOLs in 2020, be prepared to file early—through a quick refund process—to obtain a refund from the carryback years even before the 2020 return is filed.

The rule that had limited a noncorporate taxpayer's excess business losses has been suspended retroactively for taxable years beginning after 2017 and through 2020.

Your Business-Related Tax Breaks

Businesses that have employees can implement a number of incentives designed to help afford keeping employees on the payroll. These include:

- ***An employee retention credit.*** This is an offset to employment taxes (not an income tax credit) for each calendar quarter that an employer continues to pay employees despite the full or partial cessation of business or a significant decline in gross receipts. For employers with up to 100 employees in 2019, the credit is limited to 50% of up to $10,000 in regular wages (plus health insurance coverage) per employee paid after March 12, 2020, and before January 1, 2021, whether or not the employees worked during the quarter. For businesses with over 100 employees in 2019, the credit applies only to wages paid to employees not working during the quarter.
- ***Payroll tax credit for paid leave.*** If you are a small business owner making paid sick or family leave payments (described above), you can pay for them using payroll taxes (federal income tax withholding and the employer and employee shares of FICA). If these payroll taxes are insufficient, the IRS can provide an accelerated credit to you.

- ***Payroll tax deferral.*** An employer's 6.2% Social Security taxes portion of FICA due from March 27, 2020, through December 31, 2020, can be deferred. Then 50% must be paid by December 31, 2021, and the other 50% by December 31, 2022. Self-employed individuals can defer the 6.2% "employer" portion of Social Security tax that is part of their self-employment tax liability. The same payment schedule for employers applies to this deferred portion of self-employment tax.
- ***Loan forgiveness.*** Under the Paycheck Protection Program, loans can be obtained through SBA-certified lenders. A portion of the funds borrowed can be forgiven. This portion is limited to payroll costs (up to $100,000) spent during the 8-week period after the loan origination date, plus interest on a mortgage or rent in effect prior to February 15, 2020, and utilities for services in use before this date. But the forgiveness is reduced if there are layoffs or pay reductions (specifics apply here).

Your Dealings With The IRS

As of April 1, 2020, the IRS has provided relief for taxpayers handling their outstanding tax debt.

- ***Installment payment agreements.***
    - ◊ Payments due between April 1, 2020, and July 15, 2020, are suspended. However, by law, interest continues to accrue on unpaid balances.
    - ◊ Taxpayers facing unpaid taxes can seek an installment payment agreement even though IRS offices are closed for in-person meetings.
- ***Offers in compromise.***
    - ◊ Payments on existing offers in compromise can be suspended until July 15, 2020, although interest continues to accrue on the outstanding tax balance.
    - ◊ Taxpayers with existing offers in compromise won't be in default if they have not yet filed their 2018 return but they should file their 2018 and 2019 returns by July 15, 2020.
    - ◊ Taxpayers with pending offers have until July 15, 2020, to submit any requested additional information.
    - ◊ Taxpayers without an offer in compromise can seek a "fresh start" by submitting an application.

- ***Audits and collection activities.*** The IRS may continue to conduct audits by mail or phone (e.g., requests by the IRS for additional information), but no in-person audits are being done at this time. Appeals employees are still working on their cases but not holding in-person conferences. New delinquent accounts are not being forwarded to private debt collection agencies at this time. All liens and levies to collect outstanding taxes are suspended.

Other Tax Rules For Individuals and Businesses

The stimulus packages contain various tax breaks, some for individuals and some for businesses:

- ***Student loan repayment assistance***. For 2020, employers can pay up to $5,250 toward an employee's student loan debt. This is a tax-free fringe benefit to employees.
- ***Charitable contributions.*** For charitable contributions in 2020, there are several changes:
  - ◊ Individuals who do not itemize personal deductions can take a charitable contribution from gross income up to $300.
  - ◊ Individuals who itemize can deduct all cash contributions; the former limit based on a percentage of adjusted gross (AGI) does not apply to contributions made this year. They do not have to relate to coronavirus relief.
  - ◊ C corporations can deduct charitable contributions up to 25% of taxable income (instead of the usual 10% of taxable income limit).
  - ◊ Donations of food inventory are deductible up to 25% of AGI (instead of the usual 15% limit).
- ***High deductible health plans and health savings accounts***. There is relief here:
  - ◊ High deductible health plans won't be disqualified if they cover telemedicine services without an insurance deductible.
  - ◊ Health savings accounts can cover over-the-counter (nonprescription) menstrual products.

- ***Qualified improvement property.*** The Tax Cuts and Jobs Act of 2017 had failed to specify a 15-year recovery period for qualified improvement property. This has now been corrected, enabling such property acquired and placed in service after September 27, 2017, to qualify for 100% bonus depreciation. Businesses that now can use this tax break may file amended returns to obtain a tax refund.
- ***Business interest expense limit.*** Except for small businesses, there is a limit on the deduction for business interest expense; farming and real estate businesses can elect to be excluded from the limit. Usually, the deduction is limited to 30% of a taxpayer's adjusted taxable income, but for 2019 and 2020, the limit is increased to 50%, allowing for a greater deduction.

Additional Guidance

Continue monitoring tax relief and guidance at *jklasser.com* and through the IRS *(https://www.irs.gov/coronavirus)*.

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