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Dear Client,

We hope that you are keeping yourself, your loved ones, and your community safe. Along with those paramount health concerns, you may be wondering about some of the recent tax changes meant to help everyone coping with the Coronavirus fallout. In addition to the summary of IRS actions and earlier-enacted federal tax legislation that we previously sent you, we now want to update you on some of the tax-related provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress's gigantic economic stimulus package that the President signed into law on March 27, 2020.

INDIVIDUALS

Recovery rebates. To help individuals stay afloat during this time of economic uncertainty, the government will send up to \$1,200 payments to eligible individual taxpayers and \$2,400 for married couples filing joint returns. An additional \$500 additional payment will be sent to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit).

The rebates will be paid out in the form of checks or direct deposits. Most individuals won't have to take any action to receive a rebate. The IRS will compute the rebate based on a taxpayer's tax year 2019 return (or tax year 2018, if no 2019 return has yet been filed). If no 2018 return was filed, IRS will use information for 2019 provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement. See our [previous letter](#) for more information.

Waiver of 10% early distribution penalty. The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) is waived for distributions made between January 1 and December 31, 2020 by a "qualified individual" (defined as a person or family member of a person that is infected with the Coronavirus or who is economically harmed by the Coronavirus). Penalty-free distributions are limited to \$100,000, and may, subject to guidelines, be re-contributed to the plan or IRA. Income arising from the distributions is spread out over three years unless the individual elects out of this option. Employers may amend defined contribution plans to provide for these distributions. Additionally, defined contribution plans are permitted additional flexibility in the amount and repayment terms of loans to employees who are qualified individuals.

Waiver of required distribution rules. Required minimum distributions that otherwise would have to be made in 2020 from defined contribution plans (such as 401(k) plans) and IRAs are waived. This includes distributions that would have been required by April 1, 2020, due to the account owner's having turned age 70 1/2 in 2019.

BUSINESSES

SBA Paycheck Protection Program (PPP) loan. This is an incentive program for small businesses to keep their workers on payroll. The [SBA website](#) indicates that these loans may be fully forgiven if at least 75% of the proceeds are used for payroll and related costs (pension, health insurance, state payroll taxes). The remaining 25% of the loan proceeds can be used for mortgage interest, rent and utilities. Loans will be based on 2019 payroll and financial information. Even if your employees have been laid off, this program will

enable you to rehire and pay the people you want to retain until June 30, 2020; be careful to meet the 75% requirement. The loans are obtained from banks approved to make SBA loans. Lenders may start processing applications as soon as April 3, 2020. Indications are that this loan program will be extremely popular, so be sure to submit an application as soon as possible as funds may run out within 10 days unless new legislation funds more.

SBA Economic Injury Disaster Loan (EIDL) program. This is designed to help provide cash for general small business operations with revenue losses due to the COVID-19 disaster. There are loan advances of up to \$10,000 that may be available within three days of a successful application. The [SBA website](#) indicates that the \$10,000 advances will not need to be repaid. The banks may be able to help with these loans as well, but the SBA website has the [loan application forms](#) online. Again, there will be many businesses applying for these funds.

Certain SBA loan debt forgiveness isn't taxable. Amounts of Small Business Administration Section 7(a)(36) guaranteed loans that are forgiven under the CARES Act aren't taxable as discharge of indebtedness income if the forgiven amounts are used for one of several permitted purposes. The loans must have an origination date during the period beginning on February 15, 2020 and ending on June 30, 2020.

Employee retention credit for employers. Eligible employers may qualify for a refundable credit against, generally, the employer's 6.2% portion of the Social Security (OASDI) payroll tax (or against the Railroad Retirement tax) for 50% of certain wages (see below) paid to employees during the COVID-19 crisis.

The credit is available to employers carrying on business during 2020, including non-profits (but not government entities), whose operations for a calendar quarter have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings. The credit is also available to employers who have experienced a more than 50% reduction in quarterly receipts, measured on a year-over-year basis relative to the corresponding 2019 quarter, with eligibility ending with the quarter in which receipts are greater than 80% of the receipts for the corresponding 2019 quarter.

For employers with more than 100 employees in 2019, the eligible wages are wages of employees who aren't providing services because of the business suspension or reduction in gross receipts described above.

For employers with 100 or fewer full-time employees in 2019, all employee wages are eligible, even if employees haven't been prevented from providing services. The credit is provided for wages and compensation, including health benefits, and is calculated at 50% of the first \$10,000 in eligible wages and compensation per employee. Thus, the credit is a maximum \$5,000 per employee.

Eligible wages don't include (1) wages taken into account for purposes of the payroll credits provided by the earlier Families First Coronavirus Response Act for required paid sick leave or required paid family leave, (2) wages taken into account for the employer income tax credit for paid family and medical leave (under Code Sec. 45S) or (3) wages in a period in which an employer is allowed a Work Opportunity Credit (under Code Sec. 21) for an employee. An employer can elect to not have the credit apply on a quarter-by-quarter basis.

The IRS has authority to advance payments to eligible employers and to waive penalties for employers who do not deposit applicable payroll taxes in reasonable anticipation of

receiving the credit. The credit is not available to employers receiving Small Business Interruption Loans. The credit is provided for wages paid after March 12, 2020 through December 31, 2020.

Delayed payment of employer payroll taxes. Taxpayers (including self-employed) may be able to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022. Taxes that may be deferred include the 6.2% employer portion of the Social Security (OASDI) payroll tax and the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer 6.2% Social Security (OASDI) rate). The relief isn't available if the taxpayer has had debt forgiveness under the CARES Act for certain loans under the Small Business Act as modified by the CARES Act (see below). For self-employed, the deferral applies to 50% of the Self-Employment Contributions Act tax liability (including any related estimated tax liability).

Accelerated payment of credits for required paid sick leave and family leave. The CARES Act authorizes the IRS to allow employers an accelerated benefit of the paid sick leave and paid family leave credits allowed by the Families First Coronavirus Response Act by, for example, not requiring deposits of payroll taxes in the amount of credits earned.

Pension funding delay. The CARES Act gives single employer pension plan companies more time to meet their funding obligations by delaying the due date for any contribution otherwise due during 2020 until January 1, 2021. At that time, contributions due earlier will be due with interest. Also, a plan can treat its status for benefit restrictions as of December 31, 2019 as applying throughout 2020.

Suspension of certain alcohol excise taxes. The CARES Act suspends alcohol taxes on spirits withdrawn during 2020 from bonded premises for use in or contained in hand sanitizer produced and distributed in a manner consistent with FDA guidance related to the outbreak of virus SARSCoV- 2 or COVID-19.

Suspension of certain aviation taxes. The CARES Act suspends excise taxes on air transportation of persons and of property and on the excise taxes imposed on kerosene used in commercial aviation. The suspension runs from March 28, 2020 to December 31, 2020.

As always, information is constantly evolving and is subject to change. We will keep you updated as more information is made available.

Contact us if you have questions and stay safe.

The Team at Hunter, Hunter & Hunt

Additional Helpful Resources:

[IRS Corona Virus Tax Relief](#)

[DOL Coronavirus Resources](#)

[AICPA State Tax Filing Guidance for Coronavirus Pandemic](#)

[EDD Corona Virus Information](#)

[North Coast SBDC COVID-19 and SBA Disaster Loan Information](#)

[US Department of the Treasury Assistance for Small Businesses](#)