



Current Federal Tax Developments

Kaplan Financial Education

WEEK OF APRIL 6, 2020

THIS WEEK - CARES ACT HIGHLIGHTS

- Don't have a lot of standard developments
- Rather, have had a lot of issues related to the CARES Act this week
- Will look at key issues - not a complete review of the Act's tax provisions
- Things continue to develop quickly-so things have likely changed by the time you listen to this

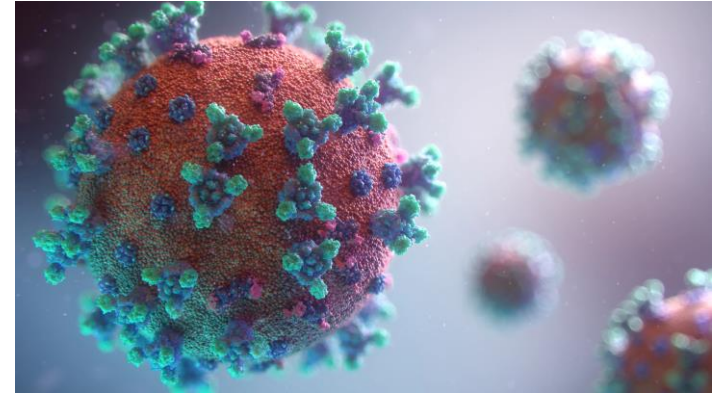


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RECOVERY REBATE FOR INDIVIDUALS (ACT §2201)

- Basic credit
 - \$1,200 for individuals not filing a joint return
 - \$2,400 for individuals filing a joint return
- Add \$500 for each qualifying child
- Phases out by 5% for each dollar AGI is in excess of
 - \$150,000 for taxpayers filing a joint return
 - \$112,500 for taxpayers filing as head of household
 - \$75,000 for all other taxpayers

RECOVERY REBATE FOR INDIVIDUALS (ACT §2201)

- Individuals not eligible for credit
 - Nonresident aliens;
 - Dependents of another
 - Estate or trust
- Must provide valid ID number for
 - Taxpayer
 - Spouse
 - Child (could be adoption taxpayer ID number – special rule for Armed Services member on this issue)

RECOVERY REBATE FOR INDIVIDUALS (ACT §2201)

- Advanced Credit
 - 2020 credit reduced (but not below zero) by advance credit
 - IRS bases advance credit on
 - 2019 return if processed or
 - 2018 return if 2019 not processed and taxpayer filed a 2018 return;
 - If neither, IRS can use 1099SSA or RRB-1099
 - Note - taxpayer may be better off (or not) by having 2019 return filed
 - IRS will mail notice when payment made to taxpayer

TEMPORARY WAIVER OF RMD FOR 2020 (§2203)

- No RMD for 2020 required
- Also applies to those with April 1, 2020 RBD who did not take their distribution in 2019

SBA LOAN PROGRAM

SBA INTERIM FINAL RULES – ACT §§ 1102 AND 1106

- Released late Thursday (RIN 3245-AH34)
- Key changes from prior reports:
 - Interest rate raised to 1% from 0.5%
 - Sort of clarified independent contractor
 - Also time period for testing for loan amount – some confusion
 - Removal of federal withholdings from payroll costs clarified to run only from 2/15/20 to 6/30/20
- Major banks were slow to begin accepting applications

PAYCHECK PROTECTION PROGRAM LOANS (§1102)

- New category of SBA 7(a) loans
- Can convert SBA 7(b) disaster loans taken out on or after January 31, 2020 to a PPP 7(b) loan
- If not forgiven, get preferable repayment terms and 1% interest rate with 2 year term
- Must make certification
- Max loan – 2.5 times average payroll costs for prior year + refinanced disaster loan – no more than \$10,000,000

PAYCHECK PROTECTION PROGRAM LOANS (§1102)

- Payroll costs
 - Includes long list of costs but
 - Excludes
 - Compensation in excess of \$100,000
 - From 2/15/20 to 6/30/20 Payroll taxes under
 - Chapter 21 (FICA)
 - Chapter 22 (RRTA)
 - Chapter 24 (Collection of Income Tax at the Source)
 - Employee with principal place of residence outside the United States
 - Qualified sick leave that gets a credit under FFCRA

PPP LOAN FORGIVENESS (§1106)

- 8-week test – can have principal forgiven if spend funds within 8 weeks on
 - Payroll costs
 - Qualified mortgage interest
 - Qualified rent
 - Qualified utilities
- No more than 25% from other than payroll costs
- Forgiveness reduced if
 - Reduce number of employees
 - Reduce employee's salary by more than 25%
- Any forgiveness is not taxable income – no attribute reduction like exclusions under §108

EMERGENCY EIDL GRANTS AND LOANS (§1110)

- Expands EIDL program and adds special \$10,000 effective grants
- Eligible entities – generally capped at those with no more than 500 employees
- Waives rules on personal guarantees, 1 year in business rule (though had to be in business on 1/1/20) and being unable to obtain credit elsewhere
- Simplified approval process and 3-day funding request for \$10,000 amount
- What can be used for – similar to PPP loan forgiveness
- \$10,000 does not have to be repaid but reduces PPP forgiveness

BUSINESS PROVISIONS

EMPLOYEE RETENTION CREDIT (§2301)

- Cannot claim if obtain PPP SBA loan
- Eligible employer is one
 - Carrying on trade or business in 2020 and
 - Either had
 - Full or partial business suspension due to COVID-19 or
 - Substantial decline in gross receipts for a quarter
- Credit is 50% of qualified wages paid (expanded definition, less wages for >100 employees)
- Cannot count related employees for credit
- Lose option to claim jobs credit on wages and must reduce deduction by amount of credit

DELAY OF DEPOSIT OF EMPLOYER FICA TAX (§2302)

- Cannot defer if make use of SBA PPP loan forgiveness
- Delays date of deposit for OASDI taxes from March 27, 2020 to December 31, 2020
 - First half of tax due December 31, 2021
 - Second half of tax due December 31, 2022
- Similar rules apply to $\frac{1}{2}$ of OASDI self-employment taxes

CPE for 2020: Start Planning



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