

Senate Approves CARES Act: Key Tax Changes

Late Wednesday evening, the Senate passed a third stimulus bill in the wake of the public health crisis and economic fallout stemming from the COVID-19 outbreak. The new bill, the Coronavirus Aid, Relief, and Economic Security (or “CARES”) Act has not yet been voted on by the House, although a vote is expected by Friday.

As it currently stands, the bill provides both individuals and businesses with robust economic support, including through changes to the federal tax code.



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Two of the key tax changes include:

- **Recovery Rebates for Individual Taxpayers.** The CARES

Act would provide a \$1,200 refundable tax credit for individuals (or \$2,400 for joint taxpayers), plus an additional \$500/child for taxpayers with children. Taxpayers would not have to include these rebates in taxable income on their 2020 tax returns and the rebate would be refundable for taxpayers with no offsetting tax liability. To be eligible, an individual must have earned qualifying income on a 2018 or 2019 tax return, which includes both earned income and certain retirement benefits, including Social Security payments. The credit begins to phase out for individuals with adjusted gross income of at least \$75,000 (or \$150,000 for joint taxpayers, or \$112,500 for heads of household), with the credit reduced by 5% for each additional dollar of income over that amount. Currently, the credit is intended to be a one-time rebate, although lawmakers may consider additional rebates in the event of a prolonged downturn.

- **Employee Retention Credit for Employers.** Under the CARES Act, employers would be eligible to take a 50% refundable payroll tax credit on up to \$10,000 of wages paid during the crisis, for a credit of up to \$5,000/employee. This credit would be available to employers whose business is forced to close, or partially close, due to virus-related shutdown orders, or which has a significant decline in gross receipts, meaning a decrease of 50% or more when compared to the same quarter in the prior year. Employers with more than 100 employees would qualify for the credit for wages paid to employees retained but not currently working due to the crisis. Smaller employers would qualify for the credit for all employee wages paid.

The CARES Act also includes a number of other helpful provisions for both individuals and businesses. For example, certain individuals affected by COVID-19 could take up to \$100,000 of early distributions from qualified retirement

plans without the normal 10% penalty, with the ability to repay these amounts within three years of withdrawal, or recognize the distribution in taxable income over a three-year period. In addition, the CARES ACT would also create a new above-the-line charitable contribution for individuals who do not itemize, allow individuals who do itemize to take increased charitable contribution deductions, and permit individuals to exclude up to \$5,250 of employer-provided student loan repayment from income. For businesses, the CARES Act would modify the limits on net operating losses for corporations (and the limitation on losses for taxpayers other than corporations) enacted as part of the 2017 Tax Cuts and Jobs Act (the "TCJA"), modify the TCJA's limitation on business interest expense deductions, and make other technical amendments. Finally, both individuals and businesses would be able to delay certain tax payments, including employer-side Social Security taxes and 50% for self-employed individuals' Social Security tax.

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