

10 tax breaks in the CARES Act

The new stimulus package—the Coronavirus Aid, Relief, and Economic Security (CARES) Act—provides some much-needed relief for both individuals and businesses.

Alert: The CARES Act includes a number of tax relief measures to help the country get through the COVID-19 crises.

Here are ten ways to benefit from tax provisions in the new law.

1. Cash in on cash payments. This is the centerpiece of the CARES Act. A single tax filer will receive a check of up to \$1,200; up to \$2,400 for a couple filing jointly. In addition, you can collect up to an extra \$500 for each qualifying child, as defined by the Child Tax Credit (CTC). Generally, the CTC applies to dependent children under age 17 living in your household.

However, these cash payments phase out between \$75,000 of adjusted gross income (AGI) and \$99,000 for single filers and \$150,000 and \$198,000 of AGI for joint filers.

Tip: Technically, the payments are advances of refundable credits, generally based on your 2019 tax return (if you've filed it) or your 2018 return.

2. Get tax rewards for charity. Because of changes in the Tax Cuts and Jobs Act (TCJA), more taxpayers are claiming the standard deduction instead of itemizing. Ergo, they get zero tax benefit for their charitable donations. For 2020, the new law allows a charitable deduction of up to \$300 for nonitemizers.

Tip: Corporations can deduct donations up to 25% of taxable income in 2020 instead of the usual 10% limit.

3. Avoid plan payout penalty. Generally, if you withdraw funds from a qualified retirement plan or IRA before age 59½, you must pay a 10% penalty tax on top of the regular income tax. But there are several special exceptions written into the tax law. The new law adds an exception for coronavirus-related distributions of up to \$100,000.

Tip: This tax break is only available in 2020.

4. Retain good workers. Under the new law, a business may qualify for a credit against its share of Social Security taxes for 2020. This refundable credit is available for certain businesses halting or shutting operations, or showing reduced receipts, due to the COVID-19 pandemic. The credit is equal to 50% of the first \$10,000 of wages for each employee per quarter.

Tip: This tax break ends with the last quarter of 2020.

5. Postpone payroll taxes. The new law allows an eligible business to delay its share of Social Security tax that would otherwise be due through the end of the year. Instead, you can pay 50% of the amount due by the end of 2021 and the remaining 50% by the end of 2022. A similar tax break allows self-employed individuals to defer 50% of the self-employment tax that is due.

Tip: Self-employed can pay 25% in 2021 and 25% in 2022.

6. Review student loan rules. Employers can provide up to \$5,250 in student loan repayment benefits on a tax-free basis. In other words, employers could assist with loan payments, and employees would not be taxed on those amounts.

Tip: Borrowers can defer payment on qualified loans to September 30.

7. Build on improvements. Initially, Congress had intended for real estate qualified improvement property placed in service after 2017 to have a 15-year depreciation recovery period, which would make it eligible for first-year bonus depreciation in post-2017 years when bonus depreciation is allowed. However, due to a drafting error in the TCJA, the 15-year recovery period for this property wasn't reflected in the statute. Now the CARES Act finally fixes this problem retroactive to January 1, 2018.

Tip: Affected real estate owners may want to file amended 2018 and 2019 returns to take advantage of this development.

8. Win on net operating losses. The TCJA changed the rules for net operating losses (NOLs). Briefly stated, the TCJA disallowed carrybacks of NOLs that arise after 2017 and allowed an indefinite carryforward period with an annual deduction limit of 80% of taxable income. The CARES Act temporarily eases those NOL changes.

Tip: The new law also postpones a TCJA deduction cap on an individual taxpayer's net losses from business activities.

9. Max out on business interest. Under the TCJA, business interest expense deductions were limited to the sum of business interest income and 30% of "adjusted taxable income" (ATI). A provision in the CARES Act increases the ATI limit to 50%.

Tip: This change is only effective for 2019 and 2020.

10. Skip RMDs this year. Owners of traditional IRAs and qualified retirement plan participants generally must begin taking annual "required minimum distributions" (RMDs) after attaining age 72 (increased from age 70½ by the SECURE Act). But the CARES Act suspends all RMDs that would otherwise be required to be taken in 2020.

Tip: This provision also applies to RMDs from inherited accounts.