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W&A Update #3

Dear Valued Clients and Friends:

The Coronavirus has infected our life in many ways. Family and friends are sick, quarantined or under a stay-in-place order. The stock market has crashed. Children are out of school. Restaurants and shopping malls are closed. More than three million unemployment claims were filed in one week. Enough of the cable news . . . If you are laid off or you have closed your business, you know the details. After a lot of talk, Congress did something. President Trump signed into law the Coronavirus Aid, Relief, and Economic Security Act, (**CARES Act**), a \$2.2 trillion stimulus package designed to mitigate the impact of the Coronavirus pandemic.

Recovery Rebates

The CARES Act includes stimulus payments of \$1,200 for each individual and \$500 for each dependent child, defined by the child tax credit rules as under age 17.

Who and How Much?

Individuals with adjusted gross income (AGI) up to \$75,000 a year are eligible for the full \$1,200 payment. The payment is reduced by \$5 for every \$100 in income above \$75,000. The payment amount is entirely phased out at an AGI of \$99,000.

Married filing joint couples with AGIs up to \$150,000 a year are eligible for a \$2,400 payment. The payment is reduced by \$5 for every \$100 in income above \$150,000. The payment amount is entirely phased out at an AGI of \$198,000 (if the taxpayers have no dependent children). Married couples also will receive an additional \$500 for every dependent child under 17.

Example - MFJ with no children. Keith and Norma are married filing joint. They have no dependent children. If they have AGI of \$150,000 or less, they are eligible for a \$2,400 payment. If they have AGI above \$150,000, their rebate will be reduced and finally phased out at an AGI of \$198,000.

Example - MFJ with two children. Chris and Pat are married filing joint. They have two dependent children under age 17. If they have AGI of \$150,000 or less, they are eligible for a \$3,400 payment. If they have AGI above \$150,000, their rebate will be reduced and finally phased out if their income hits the top of the threshold amount.

Head of household filers with AGIs up \$112,500 a year are eligible for the full \$1,200 payment and an additional payment of \$500 for each dependent child under age 17. The payment is reduced by \$5 for every \$100 in income above \$112,500. Head of household taxpayers will also receive an additional \$500 per dependent child under age 17. With no eligible children, a head of household filer is phased out at AGI of \$137,000. With one eligible dependent child, a head of household filer is entirely phased out of the rebate payment at AGI of \$146,400.

Example. Head of Household- no children under 17. Heather has an 18-year-old high school senior living with her and qualifies as a head of household filer. If her AGI is \$100,000, Heather's payment is \$1,200. Her dependent child does not qualify her for the additional \$500 payment because the child is not under age 17. If Heather's dependent child is under age 17, her payment is \$1,700.

Phaseout of the rebate. If your income is above the threshold amounts, a reduced payment will result. The reduced amount using your own income (AGI) can easily be calculated using the Washington Post calculator.

What needs to be done to get the Stimulus Rebate?

Nothing. The IRS will deposit the calculated amount directly into your bank account, using the AGI and the bank information on your 2019 tax return. If your 2019 return hasn't been filed, the IRS will use the AGI and the bank information from your 2018 tax return. If there's no bank information on the return, the IRS will mail a check.

When Will the Payments Arrive?

The IRS says that a direct deposit should be in your bank account in about three weeks. Checks should start arriving in six to eight weeks.

2020 Tax Return

Technically the stimulus rebate is a 2020 refundable tax credit. The payment received in the next few weeks is an IRS advance. If you have less income in 2020 than in 2019 because of layoffs, reduced hours and closed businesses, and your rebate payment was reduced by the income threshold, you'll receive a credit for the difference on your 2020 return. If for some reason, you receive too much of an advanced payment, you do not have to pay back the excess.

Highlights of Other CARES Act Items

Retirement Plans (for 2020)

- Waives the 10% penalty on early withdrawals up to \$100k from qualified retirement plans
- Waives all required minimum distributions

Charitable Contribution (for 2020)

- Above-the-line deduction of up to \$300 for charitable contributions by individuals
- Individual can claim an unlimited itemized deduction for a charitable contribution, which is normally limited to 50% of AGI
- Corporations – the former 10% of taxable income limitation is increased to 25%.

Student Loans Paid Employers (for 2020)

- Exclusion of up to \$5,250 from income for payments of an employee's education loans.

Employee Retention Payroll Tax Credit

- Employers who are at risk for closure due to COVID-19 can receive a payroll tax credit against eligible payroll taxes for each calendar quarter equal to 50% of the qualified wages paid to each employee. Specifics of this program will be posted on our website.

Small Business Administration (SBA) Programs

- Information on our website for these programs –
 - Economic Injury Disaster Loans (EIDL)
 - SBA Paycheck Protection Program (PPP)
 - SBA Express Bridge Loan (EBL)
 - SBA Regular 7(a) Loan Program

Payroll Tax Deferral

- The 6.2% of employer payroll taxes and 50% of the equivalent payroll taxes incurred by SE persons qualify for the deferral – ½ due on 12/31/21 and the remainder due on 12/31/2022

Net Operating Losses

- Five-year carryback of net operating losses arising in 2018,2019 or 2020 by a business. Businesses will be able to amend or modify tax returns for tax years dating back to 2013.

Minimum Tax Credits

- Full refundable credit can be claimed to 2019, and allows corporations to elect to claim the fully refundable minimum tax credits in 2018

Business interest Expense Limitation

- The limitation is increased to 50% of the taxpayer's adjusted taxable income for 2019 and 2020.

Qualified Improvement Property

- The CARES Act corrects previous Congressional oversight and now defines qualified improvement property as 15-year property, thus allowing 100% of improvements to be deducted in the year incurred. The change is made as if included in the TCJA and thus, is effective for property acquired and placed in service after 9/27/17.

Excise Tax Relief

- Temporary exception from alcohol excise taxes for alcohol for use in or contained in hand sanitizer produced or directed by the FDA related to the pandemic. Also suspended are excise taxes on aviation and kerosene used in aviation fuel. The exception and suspensions are applicable to 2020 only.

And there are additional provisions: exclusion of tax on small business loans, mortgage obligations, or other loan obligations forgiven during the applicable period; a safe harbor from the definition of a high deductible health plan permitting telehealth services to be included; pension funding relief for failures to meet contribution requirements during 2020 and allowing certain charitable employers whose primary exempt purpose is providing services to mothers and children to use small employer charity pension plan rules.

For further information and helpful links related to COVID-19, please visit this page of our website: <https://www.wilmothcpa.com/tax-forms/>

Please contact us if you have questions or if you need assistance. Please stay safe and healthy.

Virtual hugs, love, prayers and blessings.

Sincerely,

Kim M. Wilmoth, CPA