

# COVID-19 Legislative Update: A Focus on Tax Planning

*Presented By*

**Central Trust Company**

**Tuesday, April 7, 2020**

# Speakers:



Scott M. Kellett, J.D.  
President & CEO



Kristin M. Carter, CPA  
Vice President & Tax Officer

# Agenda:

- Housekeeping Items
- Legislative Overview
- Implications for Individuals
- Implications for Businesses
- A Look Forward
- Resource List

“Which topics are you most interested in learning about?”

**Top 3 Survey Results:**

- 1) Changes to RMD Rules
- 2) SBA Loans & Business Incentives
- 3) Charitable Giving

# LEGISLATIVE OVERVIEW

# Legislative Overview:

- **Spending Bill #1**
  - Enacted March 6, 2020
  - \$8.3 billion to fight the COVID-19 outbreak
  - Provides funding for vaccines, supplies, research, CDC, global health programs
- **Families First Coronavirus Relief Act (FFCRA)**
  - Enacted March 18; effective April 1, 2020
  - Provides paid sick leave & family leave to workers
  - Creates tax credits for employers
  - State funding & food/nutrition service assistance



# Legislative Overview:

- **Notice 2020-18**
  - President Trump declared national emergency under the Stafford Act; ordered US Treasury Department & IRS to defer tax payments
    - Notice 2020-18 issued on March 18, 2020
  - Later provided relief for tax filing deadline

# Legislative Overview:

- **Coronavirus Aid, Relief and Economic Security Act (CARES Act)**
  - Enacted March 27, 2020
  - Massive \$2 trillion stimulus package
  - Includes stimulus payments to individuals, loans & aid to businesses and states, unemployment benefits, healthcare funding, tax credits, and much more
- **Stimulus Bill #4**
  - In the works

# IMPLICATIONS FOR INDIVIDUALS



# Implications for Individuals:

- Automatic extension of tax filing & payments
  - April 15 deadline extended until July 15
  - No formal request or form required
    - If you cannot file by July 15, request extension until Oct 15
  - Includes individuals, estates & trusts, non-profits, corporations & most other taxpayers with 4/15 due date
    - Gift taxes & GST taxes also extended
    - CRUT/CRAT tax return (Form 5227) not yet extended
  - No limit on amount of tax deferred
    - Taxes not paid by July 15 will incur penalties & interest, starting on July 16

# Implications for Individuals:

- Automatic extension of tax filing & payments
  - If you have already filed for 2019, you can wait to pay
  - 1<sup>st</sup> quarter estimates are also extended
    - Q1 2020 estimates are due July 15
    - ~~Q2 2020 estimates are due June 15~~
    - *Updated 4/10/20: Q2 2020 estimate is now also due July 15 under IRS Notice 2020-23*
  - Most states have aligned with Federal extension
    - Check with your state for filing, payment & estimate deadlines

# Implications for Individuals:

- IRA, HSA & Archer MSA deadlines extended
  - Contributions are allowed until due date of the 1040
    - Deadline now extended until July 15
    - More time to maximize “above the line” deductions
  - Form 5498 deadline for “proving” IRA contributions & rollovers has *not* been extended at this point
    - Due date for financial institutions to issue documents is May 31<sup>st</sup>
    - If you make a contribution/rollover to an IRA from 1/1/20 – 7/15/20 for 2019 tax year, provide additional documentation to your tax preparer

# Implications for Individuals:

- **IRS Operations: Mission-critical functions only**
  - IRS has ordered their employees to work from home
    - All face-to-face assistance suspended
  - Support phone lines are very limited
  - Tax Courts are closed; collections activity suspended
    - Mail correspondence will be very limited
    - Industry groups have requested automatic notices to cease
  - IRS accepting digital signatures (such as DocuSign), photographed and scanned images on tax documents

# Implications for Individuals:

- “Economic Impact” stimulus payments
  - \$1,200 per individual (\$2,400 for married couples)
    - Plus \$500 per child under the age of 17
  - Adjusted Gross Income (AGI) thresholds apply
    - Single \$75,000 - \$99,000
    - Married Filing Jointly \$150,000 - \$198,000
    - Head of Household \$112,500 - \$136,500
    - Phase-outs: \$5 lost for every \$100 over AGI limit
  - Stimulus payments are **not taxable**
    - Considered an “advance payment of a 2020 tax credit”

# Implications for Individuals:

- “Economic Impact” stimulus payments
  - Payments are expected to be made in the next 2-3 weeks; available until 12/31/2020
  - Direct deposit will be used on 2018 or 2019 tax return, whichever is most recent
  - IRS will use direct deposit information from the SSA for retirees who do not file tax returns and receive Social Security benefits (same goes for Railroad retirement)
  - IRS also setting up an online portal to provide bank info
  - Checks will be mailed as well
  - IRS will mail payment notification letters within 15 days



# Implications for Individuals:

- “Economic Impact” stimulus payments
  - Payments figured on 2018 or 2019 AGI (most recent)
    - However, actual payment will be based on 2020 AGI
  - Provides planning opportunities for those who have not filed 2019 taxes
  - Excess payments will not have to be paid back!
    - Example: 2019 AGI was below threshold & stimulus payment received, 2020 AGI was above threshold. Stimulus payment does not have to be repaid.
  - Any payments not received will be “trued up” on 2020 tax returns
    - Example: Had another child in 2020; extra \$500!

# Implications for Individuals:

- **Waiver of 2020 RMDs from IRAs & plans**
  - 2020 RMDs are waived for traditional & inherited IRAs, 401(k), 403(b) and 457(b) plans, SEP IRAs, SIMPLE IRAs
    - Also applies to those who turned 70 ½ in 2019 and waited until 2020 to take their first RMD
  - Provides welcome relief for account owners
    - RMD calculations based on inflated 12/31/2019 values
  - Qualified Charitable Distributions (QCDs) are still allowed for IRAs, up to \$100,000 per taxpayer



# Implications for Individuals:

- Waiver of 2020 RMDs from IRAs & plans
  - Can I return my 2020 RMD if I already took it?
    - Within 60 days: You can utilize the 60-day rollover rules
      - Cannot have made a 60-day rollover in the last 12 months
    - Outside of 60-day window: Unless further guidance from the IRS states otherwise, no relief at this point
      - Possible relief under “coronavirus-related distribution” rules
    - Inherited IRAs: No, the RMD cannot be rolled back in
    - Qualified Charitable Distributions (QCDs): Not allowed

# Implications for Individuals:

- Waiver of 2020 RMDs from IRAs & plans
  - Tax Planning Considerations:
    - While not required to take an RMD in 2020, you should consider your 2020 tax rate as compared to future years
    - While market values are depressed, you should consider a (taxable) Roth conversion
      - Tax-free growth
      - Roth accounts have no RMD requirements
        - However, 10-year payout under new SECURE Act rules for your heirs
      - Consult your Central Trust team & tax advisor for more information

# Implications for Individuals:

- “Coronavirus-related distribution” relief
  - Distributions up to \$100,000 can be taken from IRAs and qualified plans
  - Must be impacted in one of the following ways:
    - Have been diagnosed with COVID-19 or have a spouse or dependent who has been diagnosed,
    - Unable to work because of school & daycare closures,
    - Experienced some adverse financial impact, or
    - Any other reason that the IRS deems as having a negative impact

# Implications for Individuals:

- “Coronavirus-related distribution” relief
  - 10% early withdrawal penalty waived (if under 59 ½)
  - Taxable income can be spread ratably over 3 years
    - Can elect to tax all income in 2020
  - Funds can be repaid to the IRA or plan in 3 years
    - Repayment can be made in single rollover or multiple rollovers during the 3-year period
    - Amended tax returns required to claim refund of tax paid
  - Employees can take up to \$100,000 qualified plan loan
    - Payments are delayed for one year
    - Plan document has to allow for loans

# Implications for Individuals:

- Charitable Giving Relief
  - New \$300 “above the line” cash charitable deduction
    - For taxpayers who do not itemize deductions
    - Cannot be made to donor-advised fund or “supporting organization”; must be made to a public charity
    - For cash donations made during 2020; however, no sunset date included in CARES Act
  - 60% AGI limit has been suspended for 2020 only
    - Up to 100% of income can be given away (in cash)
    - Excess deduction carries forward up to 5 years
    - Cannot be made to DAFs or supporting organizations

# Implications for Individuals:

- Charitable Giving Relief
  - Tax Planning Considerations:
    - With no AGI limit, consider making large charitable gifts
      - Donations out of IRAs are normally limited by the 60% AGI limit, creating taxable income upon distribution
      - During 2020 there is a complete offset of income!
    - Rather than donating depreciated securities “in kind”, harvest capital losses and donate cash

# Implications for Individuals:

- Unemployment benefits dramatically expanded
  - “First week” waiting period waived
  - Additional \$600 per week added to “regular” benefits
    - For up to 4 months
  - Regular benefits extended by 13 weeks
  - Self-employed workers, “gig” workers, part-time workers and workers with limited job history now qualify
    - For up to 39 weeks of benefits

# Implications for Individuals:

- **Federal student loan relief**
  - Payments suspended through September 30, 2020
  - Interest will not accrue during this time
  - Voluntary payments can be made at effectively 0%
- **Tax-free education assistance up to \$5,250**
  - Employers can pay up to \$5,250 for employee student loan payments
  - Can exclude payments from employee's taxable wages
  - Must coordinate with other employer education assistance programs



# Implications for Individuals:

- Other thoughts and considerations
  - Discuss income tax, estate tax and financial planning opportunities with your Central Trust wealth management team, attorney and tax advisor
  - Consider rebalancing your portfolio to take advantage of depressed market values
  - Consider a Roth conversion
  - Refinance your mortgage – interest rates are very low
  - Revisit your estate and gift plans with your Central Trust team, attorney and tax advisors (especially with IRAs!)



# IMPLICATIONS FOR BUSINESSES & NON-PROFITS

# Business & non-profit implications:

- **Automatic extension of tax filing & payments**
  - April 15 deadline extended until July 15
  - Provides much needed cash flow for businesses & NFPs
- **Postponement of employer's portion of SS tax (6.2%)**
  - For employer SS taxes incurred through 12/31/2020
  - No cap on the amount that can be deferred
  - Repayment due in equal payments
    - 50% due by 12/31/2021, 50% due by 12/31/2022
    - No interest due
  - Self-employed & independent contractors qualify!
  - Reduce SS tax liability by tax credits first, then defer

# Business & non-profit implications:

- New “employee retention” payroll tax credit
  - Refundable payroll tax credit for employers who are affected by the COVID-19 crisis
    - Purpose is for employers to keep employees on payroll
  - 50% credit on wages paid, up to \$10,000 per employee
    - For wages paid between March 13 through December 31
    - Max credit is \$5,000 per employee
  - To qualify:
    - Must experience 50%+ drop in gross revenues (as compared to same quarter last year), or
    - Operations were fully or partially suspended due to government order

# Business & non-profit implications:

- New “employee retention” payroll tax credit
  - Claimed on quarterly payroll tax return (Form 941)
  - Applied against employer’s portion of Social Security tax
  - Employer can reduce payroll tax deposits for anticipated credit amount
    - Provides immediate cash flow relief
    - No “failure to deposit” penalties will apply
  - Employer can also file Form 7200 to request advance refund of credit
  - “Double dipping” rules apply

# Business & non-profit implications:

- New “paid leave” payroll tax credit
  - Under FFCRA, employers must provide paid sick leave & expanded FMLA leave
    - Applies to employers with 50 - 500 employees
    - Self-employed individuals can qualify
    - Rules are effective April 1, 2020
  - Paid leave requirements include:
    - If Employee is sick: Up to 80 hours paid sick leave at regular rate of pay (or minimum wage, if higher) – up to \$511 per day
    - If caring for an individual: Up to 80 hours paid sick leave at 2/3 pay (or minimum wage, if higher) – up to \$200 per day
    - Up to 10 weeks of paid family leave at 2/3 pay – up to \$200 per day

# Business & non-profit implications:

- New “paid leave” payroll tax credit
  - Refundable tax credit created to offset, dollar-for-dollar, the cost of providing paid leave
    - Also includes related Medicare tax & health benefit costs
    - Applies to sick leave & FMLA leave wages paid from April 1 to December 31, 2020
  - Same procedures to claim credit as “employee retention” credit
  - “Double dipping” rules apply

# Business & non-profit implications:

- **New SBA Loan “Paycheck Protection Program” (PPP)**
  - \$349 billion program provides forgivable loans
  - Main purpose is to maintain pay for employees

## Eligibility:

- Small businesses < 500 employees, or certain industries such as hotels, restaurants & franchises
- Includes non-profits, veterans’ organizations, Tribal concerns, sole proprietors, independent contractors and self-employed individuals
- Must have been in operation on February 15, 2020
  - Must have also had employees or independent contractors
- One loan allowed per borrower



# Business & non-profit implications:

- New SBA Loan “Paycheck Protection Program”

## Loan Terms:

- Max loan amount is \$10 million
  - Lesser of \$10 million or “average monthly payroll” x 2.5
- No collateral or personal guarantees; guaranteed by SBA
- No fees charged by SBA or lenders
- 2-year term @ 1% interest
  - Must be made by June 30, 2020
  - Payments deferred for 6 months from date of loan
    - Interest will accrue during deferment period
- No “double dipping” with tax credits, other SBA loans, etc.

# Business & non-profit implications:

- New SBA Loan “Paycheck Protection Program”

## Loan Forgiveness:

- Loan proceeds must be used for payroll costs, group health benefits, mortgage interest payments, rent, utilities, & interest on other debt
  - At least 75% of loan must be used for payroll costs
- Full amount of loan (plus interest) can be forgiven, tax-free!
- Employee headcounts and compensation levels must be maintained
- Loan forgiveness is requested to lender after 8-week period and is based on actual qualified expenditures made

# Business & non-profit implications:

- Expanded “Economic Injury Disaster Loan” (EIDL)
  - Administered directly by the SBA (not through lenders)
  - Main purpose is to support “economically injured” small businesses and non-profits; available until 12/31/2020

## Eligibility:

- Similar eligibility as PPP loan program
- Business or non-profit must have been severely impacted by the COVID-19 pandemic
- Personal guarantee and collateral rules have been relaxed, but are still required in some cases
- Cannot receive a PPP loan for the same purpose; however, can receive a PPP loan for a different purpose

# Business & non-profit implications:

- Expanded “Economic Injury Disaster Loan” (EIDL)

## Loan Terms:

- Max loan amount is \$2 million
  - Loan amount determined by actual economic injury incurred
- Intended to be long-term, up to 30 years
- 3.75% interest rate for businesses; 2.75% for non-profits
  - Payments & interest automatically deferred through 12/31/2020
- Proceeds can be used more broadly than PPP
  - Can be used to pay operating expenses and financial obligations

# Business & non-profit implications:

- Expanded “Economic Injury Disaster Loan” (EIDL)

## Grant Provision:

- Applicant can request immediate “advance” of \$10,000
  - Applicant will submit self-certification to SBA directly
  - SBA will issue the “advance” within 3 days
- \$10,000 advance is considered an “emergency grant”
  - Does not have to be repaid, even if loan is denied!
- If applicant also receives a Paycheck Protection Program loan, the \$10,000 grant will be subtracted from the PPP loan forgiveness amount
  - PPP and EIDL loans can also refinanced together

# Business & non-profit implications:

- Special retirement plan relief for employees
  - “Coronavirus-related distributions” up to \$100,000 can be taken from qualified plans
    - Employee must be impacted by COVID-19
    - Employer can accept self-certification from employee
    - Funds can be repaid over 3 years
      - Not subject to mandatory 20% withholding
    - Employees can also take up to \$100,000 loan against their vested balance in the plan
      - Payments can be deferred by one year

# Business & non-profit implications:

- Special retirement plan relief for employees
  - Plan changes are voluntary for employers.
  - Plan amendment requirements have been delayed to allow employers to adopt COVID-19 relief rules before formally amending the plan document first
  - Additional guidance from the IRS will be necessary for plan administrators and financial institutions to administer these changes properly
  - Additional questions? Contact Todd Hughes, JD (VP & Retirement Services Officer) – [todd.hughes@centraltrust.net](mailto:todd.hughes@centraltrust.net)



# Business & non-profit implications:

- **Business-friendly provisions - Honorable Mentions**
  - Net operating loss (NOL) rules expanded
    - 5 year carryback is allowed to provide cash to business owners by amending prior tax returns to request refund
  - Interest expense deductibility limits increased from 30% to 50% for 2019 and 2020
  - “Qualified improvement property” technical correction
    - Allows 15-year life and bonus depreciation, creating larger depreciation deductions & lower tax bills for owners
  - Funding relief for defined benefit pension plans, but not for defined contribution plans
    - Can delay 2020 contribution payments until 1/1/2021



# A LOOK FORWARD: WHAT LIES AHEAD?

# What Lies Ahead?

- **Stimulus Bill #4 – Possible measures include:**
  - Second round of stimulus payments to individuals
  - Relief for specific industries, state & local governments
  - Infrastructure investments, including broadband & water
  - OSHA protections for frontline workers & funding for personal protective equipment (PPE)
  - Free treatment for COVID-19 patients
  - Increased SNAP funding (food stamps)
  - Pension fund relief; retirement plan funding relief
  - Removal of \$10,000 limit on State & Local Tax deduction
  - Increase to Meals & Entertainment deduction (currently at 50% limit)
  - Restoration of “financial advice” deduction? (investment management fees)

# RESOURCE LIST

# Resource List

- Central Trust Company website & social media
  - <https://centraltrust.net/coronavirus/>
  - <https://centraltrust.net/insights/tax-center/>
  - Whitepapers, webinar recording & slide deck
- [www.irs.gov/coronavirus](http://www.irs.gov/coronavirus)
- [www.sba.gov](http://www.sba.gov)
- Tax Officer – [kristin.carter@centraltrust.net](mailto:kristin.carter@centraltrust.net)



Thank you for attending  
our webinar!

---