COVID TAX RELIEF thru CARES ACT - (Coronavirus Aid, Relief, and Economic Security Act)

RECOVERY REBATES FOR INDIVIDUALS.

The CARES Act gives advance tax rebates for the 2020 tax year of up to $1,200 per individual (or $2,400 for joint return filers), plus $500 per child to eligible taxpayers.

The rebates phase out for single individuals with incomes between $75,000 and $99,000, and joint return filers with incomes between $150,000 and $198,000, and are not available for single individuals and joint return filers (with no children) with incomes exceeding $99,000 and $198,000, respectively.

The IRS will use tax return information provided on the taxpayer's 2019 tax return (or alternatively the taxpayer's 2018 tax return) to issue the advance tax rebate.
For this purpose, eligible Taxpayers are those residents who have qualifying income of $2500, or have a net liability greater than zero and Gross income above the basic standard deduction. Qualifying income includes income such as wages, business income, social security income or pension.

DELAY OF CERTAIN FILING & ESTIMATED PAYMENT DEADLINES

The Treasury Department and Internal Revenue Service announced on March 21st that the federal income tax filing due date for Individual, C Corporation and GST returns is automatically extended from April 15, 2020, to July 15, 2020. This extension, however, does not apply to Pass-through entities (Multimember LLCs and S Corporation who had a filing deadline on March 15, 2020.

In addition, taxpayers can defer federal income tax payments due on April 15, 2020, to July 15, 2020, without penalties and interest, regardless of the amount owed.

This deferment applies to all taxpayers, including individuals, trusts and estates, corporations and other non-corporate tax filers as well as those who pay self-employment tax. Taxpayers do not need to file any additional forms or call the IRS to qualify for this automatic federal tax filing and payment relief. Individual taxpayers who need additional time to file beyond the July 15 deadline, can request a filing extension by filing Form 4868.

In addition, the due dates for payment of Estimated Tax installments for 2020 in respect of Individuals and Corporations shall be deferred to October 15, 2020, when all the installments due till that time will become due.

Tax-Favored Withdrawals From Retirement Plans

The CARES Act allows a taxpayer to take a "corona virus-related distribution" of up to $100,000 in the year 2020 free from

MODIFICATION OF LIMITATION ON BUSINESS INTEREST.

The TCJA limited the business interest deduction to 30% of adjusted taxable Income. The CARES ACT increases the limitation on the deductibility of interest expense from 30% to 50% for tax years beginning in 2019 and 2020.
The limitation increase does not apply to partners in partnerships for 2019 but applies only in 2020. For excess business interest in tax years beginning in 2019, partners can elect to have 50 percent of that excess business interest treated as business interest paid in 2020 that is not subject to the business interest deduction limitation, and the remaining 50 percent of that excess business interest subject to the 30 percent business interest expense limitation can be carried forward.
Taxpayers may elect to calculate the interest limitation for 2020 using their 2019 adjusted taxable income (which in many cases would be higher, especially if their business is adversely affected in 2020.

Expedited refunds for remaining corporate AMT credits

Before the 2017 TCJA, certain corporations paid a 20 percent alternative minimum tax (AMT) and that paid AMT generated a tax credit that could be carried forward and used to offset regular income tax paid by those corporations in future tax years. The CARES Act provides that a corporation can claim a full refund of these AMT credits in its 2018 and 2019 tax years. To take advantage of this immediate refund, corporations must apply by the end of 2020 and the IRS will process the application within 90 days.

Employee Retention Credit :Refundable payroll tax credit for affected employers
The CARES Act gives eligible employers a refundable payroll tax credit equal to 50 percent of "qualified wages" (including health benefits) paid to each employee from March 13, 2020 through the end of 2020 (the "COVID-19 Period"), with a maximum credit limited to 50 percent of each employee's qualified wages up to the first $10,000 (i.e., a credit of up to $5,000 per employee).

To be eligible, an employer's (i) operations must be fully or partially suspended during the COVID-19 Crisis Period, due to a COVID-19-related shut-down order; or (ii) gross receipts must have declined by 50 percent or more when compared to the same quarter in 2019.

Employers with Less Than 100 Employees

If the employer had 100 or fewer employees on average in 2019, the credit is based on wages paid to all employees (including those furloughed), regardless if they worked or not. If the employees worked full time and were paid for full time work, the employer still receives the credit.

penalty. Such distribution is allowed to an individual who, or whose spouse or dependent is diagnosed with Covid-positive condition, or who experiences adverse financial consequences as a result of being quarantined, furloughed or laid off or having work hours reduced, or being unable to work due to lack of child care.

While the distribution escapes the 10% penalty, it doesn't escape the income tax. However, CARES Act allows the taxpayer to spread the income over a 3-year period beginning with 2020.

The taxpayer also gives the taxpayer the choice to avoid any income recognition by repaying the distribution to the retirement plan within three years of receiving it.
Loans From Qualified Plans

In addition, the amount an individual may borrow from his or her retirement plan is increased from $50,000 to $100,000 for the 180-day period beginning after the enactment of the Act.

REQUIRED MINIMUM DISTRIBUTION (RMD) WAIVED

For those required to withdraw a "required minimum distribution" from their retirement plan in 2020, the CARES Act temporary waives the requirement for this year only.

CHANGES TO to CHARITABLE CONTRIBUTIONS

For those who do not itemize, the CARES Act allows an individual to make a cash contribution of up to $300 made to certain qualifying charities and deduct the contribution "above-the-line" in computing adjusted gross income. Thus, the taxpayer receives the deduction in addition to the standard deduction. This above-the-line deduction is here for 2020 and beyond.

SUSPENSION/ INCREASE OF LIMITATIONS ON CERTAIN CASH CONTRIBUTIONS MADE IN 2020

For those individuals that itemize, the CARES Act removes the 50 percent of adjusted gross income limit on charitable deductions for cash contributions in 2020
For Corporations, the CARES Act increases the charitable deduction limit from 10 percent to 25 percent of a corporation's taxable income for cash contributions in 2020.

DELAY OF PAYMENT OF EMPLOYER PAYROLL TAXES

The CARES Act allows employers (including self-employed individuals) to defer payment of the employer's share of Social Security taxes on wages (6.2%) that accrue from the date of enactment of the CARES Act until the end of 2020 (the "Deferral Period"). Half of the deferred amount must be paid by December 31, 2021, and the other half must be paid by December 31, 2022.

Self-employed individuals can also likewise defer the 'employer portion (6.2%)' of the Social Security Tax in the Deferral Period.

MODIFICATIONS FOR NET OPERATING LOSSES.

-Modification Of Rules Relating To Carrybacks of losses
The CARES Act repeals the 80 percent income limitation brought in by the JOBS ACT on set off of brought forward losses for tax years beginning before 2021 and allows 100 percent of loss carry forwards. Thus, losses carried to 2019 and 2020 will be permitted to offset 100% of taxable income, as opposed to 80% under the TCJA.

In addition, the CARES Act also reintroduces carryback of losses by permitting taxpayers (other than REITs) to

Employers with More Than 100 Employees

If the employer had more than 100 employees on average in 2019, then the credit is allowed only for wages paid to employees who did not work during the calendar quarter.

Exclusion from Income of Employer Payment of Employee Student Loan Debt
As part of the CARES Act, an employer can pay up to $5,250 in 2020 of an employee's student loan obligation on a tax-free basis.

Note, however, that this provision modifies existing Section 127, which permits an employer to pay up to $5,250 of an employee's qualified educational expenses .This is now a combined limit; thus, an employer could pay $3,000 towards an employee's Master's degree and another $4,000 of the same employee's student loan payments in 2020, but the maximum amount that will be tax-free to the employee is $5,250.

To the extent an employee's student loan is paid on a tax-free basis under new Section 127 by his or her employer, the employee cannot deduct the interest on the student loan under Section 221.

Small Business Loan Forgiveness

CARES ACT creates a loan forgiveness program for small businesses, whereby any cancellation of debt income under the program would be tax-free.

An eligible recipient is allowed tax-free forgiveness of indebtedness on a covered loan in an amount equal to the cost of maintaining payroll continuity during the covered period March 1, 2020 till June 30, 2020. Covered loan means a loan guaranteed under section 7(a) of the Small Business Act that is made during the covered period;

TECHNICAL AMENDMENTS REGARDING QUALIFIED IMPROVEMENT PROPERTY

The 2017 TCJA generally permits taxpayers to take 100 percent bonus depreciation on property with a recovery period of 20 years or less if that property is placed in service before 2023. However, the 2017 TCJA mistakenly excluded from 100 percent bonus depreciation business expenses for certain improvements to existing nonresidential building ("qualified improvement property" or QIP). The CARES Act fixes this error by extending 100 percent bonus depreciation to QIP and by permitting taxpayers to retroactively claim 100 percent bonus depreciation on QIP placed in service in 2018 and 2019. If this applies, qualifying taxpayers should consider filing amended returns to take advantage of this benefit.

CALIFORNIA

COVID RELIEF BY FRANCHISE TAX BAORD

State Postpones Tax Deadlines Until July 15 Due to the COVID-19 Pandemic
The Franchise Tax Board (FTB) has announced updated special tax relief for all California taxpayers due to the COVID-19 pandemic. Accordingly, FTB has postponed until July 15 the filing and payment deadlines for all individuals and business entities for:

- 2019 tax returns
- 2019 tax return payments
- 2020 1st and 2nd quarter estimate payments
- 2020 LLC taxes and fees
- 2020 Non-wage withholding payments

State Postpones Deadlines for Filing Tax Protests, Appeals, and Refund Claims Due to COVID-19

State Controller and Franchise Tax Board (FTB) Chair Betty T. Yee today carryback for up to five years NOLs arising in tax years beginning in 2018, 2019 and 2020.

For corporations, NOLs carried back to tax years before 2018 may be particularly valuable because the corporate income tax rate was as high as 39% percent at certain income levels.

Businesses with NOL carrybacks would be able to obtain tax refunds for taxes paid within the five-year carryback period. As a result, these changes may provide many business with liquidity from accelerating the use of NOLs to reduce taxes and permitting immediate tax refunds for tax paid in prior years.

To qualify for a carryback adjustment, a taxpayer must file the application within 120 days of the enactment of the CARES Act.

- Suspension of "excess business loss" limitations on non corporate taxpayers for 2018, 2019 & 2020

JOBS ACT placed a limit on an individual's ability to use business losses arising to offset non business income in subsequent years by limiting the offset of brought forward losses to $250,000 for individuals ($500,000 for joint return filers) prior to 2026, and such losses that are disallowed as "excess business losses" are carried forward and treated as NOLs in future tax years. The CARES Act suspends these excess business loss limitations for tax years beginning in 2018, 2019 and 2020. Qualifying taxpayers should take advantage of these additional deductions to reduce taxes for 2019 and 2020, and should consider filing amended returns for excess business losses that arose in 2018.

announced an extension of time until July 15, 2020, for California taxpayers to complete certain time sensitive acts pertaining to state taxes due to the COVID-19 pandemic.
FTB Issued Notice- 2020-02PDF Download, detailing the new deadlines to file:

- Claims for refunds with FTB
- Protests of proposed tax assessments with FTB
- Appeals to the Office of Tax Appeals of Notices of Action denying claims for refund or affirming tax assessments

CA EDD Relief

Businesses directly affected by COVID-19 can request up to a 60-day extension to file their state payroll reports and deposit state payroll taxes without penalty or interest. They need to include the impact of COVID-19 in their written request for the extension. The request must be received within 60 days from the original past-due date of the payment or return.

Sincerely,

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About US

Bhatia & Co, Inc., Certified Public Accountants, is a diversified Full service financial and business services firm concentrating on providing services to domestic and international organizations, with special focus on international transactions and tax planning. Our Team of highly skilled and diversified range of finance and business professionals provide services in areas of business and individual tax, audit & review, international tax planning, incorporation and corporate compliance, accounting, outsourcing, business consulting, financial and retirement planning, immigration consulting and litigation support to a diverse range of clients.. We are located in the heart of Silicon Valley in Santa Clara, CA for the last 15+ years as well as in Pleasanton, CA and have offices in New Delhi for 30+ years.

Our recent engagements in the US and India include cross border tax planning and transactions, M&A, corporate structuring, and complex Tax audits and representation including recent oversees disclosure programs (OVDP/OVDI/ Streamlined disclosure programs). The clientele include startups, multinational companies, government organizations, Public Sector Banks, and Auto dealerships.
Bhatia & Co. is headed by Neeraj Bhatia, who is an accomplished accounting professional with more than 30 years' expertise in international and domestic tax planning and compliance for startups and multinational entities. Neeraj is a licensed CPA in California, New York and Colorado and a CA in India. He also has a LL.M. in International Taxation from the US, Costs and Works (Management) Accountancy, and a Bachelor (Honors) degree in Commerce from India.

During his academic years he has received several awards and scholarships for being the top ranker nationally. Recently in January, 2018 Neeraj Bhatia was awarded the prestigious Hind Rattan Award (Jewel of India award) on the occasion of Pravasi Bhartiya Diwas by the NRI Welfare Society for keeping Flag of India high abroad at their 37th International Congress of NRIs held in Bangkok, Thailand.

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