

Tax Provisions in COVID-19 Stimulus Bill (CARES Act, H.R. 748)

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Prepared by the Joint Fiscal Office

Highlighted indicates likely direct revenue impact on Vermont

- Majority of these impacts when individuals and businesses file their taxes (for most individuals, this means April 2021)

- **Recovery Rebates for Individuals**
 - Individuals and families will be receiving rebates from the Federal government
 - \$1,200 for an individual, \$2400 for a married couple plus \$500 for each child.
 - Phases out after income is greater than \$75,000 for an individual and \$150,000 for a married couple. Phase-out \$5 for every \$100 after those thresholds.
 - Rebates phase out differently depending on number of children, but overall, no individual with AGI above \$167,000 and no married couple with AGI above \$230,000 will receive any rebate.
 - Payment is considered an "advanced refund" tax credit. To be paid out as soon as possible by the Treasury. Therefore, not taxable income.
 - To be paid out as quickly as possible by the Treasury.

- **Early withdrawals from retirement accounts without penalty**
 - Up to \$100,000 may be disbursed from a retirement account without paying the usual 10% tax penalty.
 - To be eligible, you or your spouse must have been diagnosed with COVID-19 or faced some sort of financial hardship because of the virus such as being furloughed, laid off, or quarantined.
 - Any withdrawal is counted as taxable income but the amount withdrawn can be prorated over three years.
 - Individuals can then repay the amount back without penalty or tax consequences.
 - All minimum distribution retirement rules are waived for 2020.

- **Above the line charitable deduction**
 - Individuals can now take a pre-AGI deduction not totally more than \$300 for any charitable contributions made
 - This deduction can not be taken if the taxpayer itemizes their charitable contributions
 - Some limits on charitable giving have been suspended (such as the limit that the contributions not exceed 50% of taxable income).

- **Employee retention tax credits**
 - Creates a new credit against Social Security payroll taxes equal to 50% of wages paid, not to exceed \$10,000 for businesses to keep workers on their payroll.
 - Refundable tax credit
 - For employers that see a significant drop in activity due to COVID-19 as defined by an at least 50% drop in revenues from last year's first or second quarter.
 - Also applies to tax exempt organizations.
 - Eligibility of the credit against wages is limited based upon employer size:
 - For those with more than 100 full-time employees, the credit is only available for the wages when they are not providing services because of COVID-19 or if they see a significant drop in business
 - For less than 100 full-time employees, all employee wages qualify, regardless of whether they are closed for a shutdown order or open for business.
- **Delay of payment of employer payroll taxes**
 - Employers and self-employed may defer Social Security taxes for two years, to be paid back on December 31, 2021 and 2022.
 - Employers who have taken out loans under the same bill are not eligible for this.
- **Changes to the limitations on business net operating losses**
 - Net operating losses (NOLs) are business losses that can be spread across tax years by a business to smooth fluctuations in the business cycle.
 - Tax Cuts and Jobs Act scaled back the ability of businesses to use NOLs. Specifically, they were not allowed to carry back losses to previous tax years.
 - The stimulus bill allows businesses to carry back losses 5 years, back to 2015. It also does not put any limits on the amount of NOLs as a percentage of taxable income.
- **Changes to the limitation of business income deductibility**
 - Prior to the Tax Cuts and Jobs Act, businesses were able to deduct most of the interest expense of borrowing. That was limited by TCJA to no more than 30% of taxable income.
 - This stimulus bill relaxes that threshold by making the limitation 50% of taxable income.

- **Other tax changes**

- The bill allows for the payments of employer-paid student loans to be deducted as income for the individual. For payments before January 2021. The limit is \$5,250 per employee.
- Removal of the federal excise tax for distillers who make alcohol for hand sanitizer.
- The Tax Cuts and Jobs Act repealed the Corporate Alternative Minimum Tax at the Federal level. This generated future credits for many corporations that were only allowed to be used over a certain period. This bill allows those tax credits to be taken earlier.