CRISAFI,
PRYOR & FARQUHAR
CERTIFIED PUBLIC ACCOUNTANTS

DAVID PRYOR, CPA
MICHAEL D. PRYOR, CPA
ANTHONY J. CRISAFI, CPA
NICHOLAS A. CRISAFI
ROBERT N. WOODWARD, CPA
JOHN C. FARQUHAR, CPA

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Tax Relief provided by the CARES Act

Dear Client:

We hope that you are keeping yourself, your loved ones, and your community safe from COVID-19 (commonly referred to as the Coronavirus). Along with those paramount health concerns, you may be wondering about some of the recent tax changes meant to help everyone coping with the Coronavirus fallout. We want to update you on some of the tax-related provisions in the Coronavirus Aid, Relief and Economic Securities (CARES) Act, Congress's gigantic economic stimulus package that the president signed into law on March 27, 2020.

Filing and payment deadlines deferred. The following applies to all individuals, trusts, estates, partnerships, associations, companies or corporations of whether or how much they are affected by Coronavirus.

1. For a taxpayer with a Federal income tax return or a Federal income tax payment due on April 15, 2020, the due date for filing and paying is automatically postponed to July 15, 2020 regardless of the size of the payment owed.
2. The taxpayer doesn't have to file Form 4868 or Form 7004 to get the extension.
3. The relief is for Federal income tax payments and Federal income tax returns due April 15, 2020 for the person's 2019 tax year and Federal estimated income tax payments due on April 15, 2020 for the persons 2020 tax year.
4. No extension is provided for the payment or deposit of any other type of Federal tax (e.g. estate (form 706) or gift taxes (form 709)) or the filing of any Federal information return.
5. As a result of the return filing and tax payment postponement from April 15, 2020 to July 15, 2020, that period is disregarded in the calculation of any interest, penalty, or addition to tax for failure to file the postponed income tax returns or pay the postponed income taxes. Interest, penalties and additions to tax will begin to accrue again on July 16, 2020.

Recovery Rebate for Individuals. To help individuals stay afloat during this time of economic uncertainty, the government will send up to $1,200 payments to eligible taxpayers and $2,400 for married couples filing joint returns. An additional $500 payment will be sent to taxpayers for each qualifying child dependent under age 17. Economic impact payments will not be included in the recipient's income for tax purposes.

Waiver of the 10% early distribution penalty. The additional 10% tax on early distributions from IRAs and defined contribution plans (such as 401(k) plans) is waived for distributions made between January 1 and December 31, 2020 by a person who (or whose family) is infected with the Coronavirus or who is economically harmed by the Coronavirus. Penalty-free distributions are limited to $100,000, and may, subject to guidelines, be re-contributed to the plan or IRA. Income arising from the distributions is spread out over three years unless the employee elects to turn down the spread out.

1650 Borel Place, Suite 120 • San Mateo, CA 94402 • Tel 650.697.2727 • Fax 650.239.5055

Waiver of required distribution rules. Required minimum distributions that otherwise would have to be made in 2020 from defined contribution plans (such as 401(k) plans) and IRAs are waived. This includes distributions that would have been required by April 1, 2020 due to the account owner's having turned 70 1/2 in 2019.

Charitable deduction liberalizations. The CARES act makes significant liberalizations to the rules governing charitable deductions:

1. Individuals will be able to claim a $300 above-the-line deduction for cash contributions made, generally, to public charities in 2020. This rule effectively allows a limited charitable deduction to taxpayers claiming the standard deduction.
2. The limitation on charitable deductions for individuals that is generally 60% of modified adjusted gross income (the contribution base) doesn't apply to cash contributions made, generally, to public charities in 2020. Instead, an individual's qualifying contributions, reduced by other contributions, can be as much as 100% of the contribution base. No connection between the contributions and COVID-19 activities is required.

Net operating loss liberalizations. The 2017 Tax Cuts and Jobs Act limited NOLs arising after 2017 to 80% of taxable income and eliminated the ability to carry NOLs back to prior years. For NOLs arising in tax years beginning before 2021, the CARES Act allows taxpayers to carryback 100% of NOLs to the prior five tax years, effectively delaying for carrybacks the 80% taxable income limitation and carryback prohibition until 2021. The act also temporarily liberalizes the treatment of NOL carryforwards. For tax years beginning before 2021, the taxpayers can take an NOL deduction equal to 100% of taxable income.

There is much to be learned from this new legislation, and our letter isn't comprehensive regarding all matters with regards to the Coronavirus Aid, Relief and Economic Securities Act. We would be pleased to hear from you at any time with questions about the above information or any other matters, related to COVID-19 or not. We wish you all the very best in a difficult time.

Sincerely,

Crisafi Pryor & Farquhar

Crisafi, Pryor & Farquhar, Inc.