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# AAPPT, LLC FINANCIAL OUTLOOK SPRING 2020

## CARES ACT PROVIDES MAJOR ASSISTANCE FOR INDIVIDUALS

There are numerous provisions in the CARES Act designed to assist individuals. Some of the most significant include:

○ **RECOVERY REBATES** — One of the most publicized provisions of the CARES Act is the \$1,200 recovery rebate for individuals. These

rebates are advance refunds of credits against 2020 taxes, equaling \$1,200 for individuals and \$2,400 for joint filers with an additional \$500 credit for each dependent child. The rebate is phased out by \$5 for every \$100 in excess of a threshold amount. This threshold amount is based on 2019 adjusted gross income (2018 income if a 2019 return has not been filed yet), and begins at \$75,000 for single filers, \$112,500 for heads of household, and \$150,000 for married couples filing jointly. The rebates are completely phased out for single filers with applicable adjusted gross income over \$99,000, heads of household over \$136,500, and married couples filing jointly over \$198,000. There is no phase out for the \$500 credit for each child. The rebate is not considered taxable income, since it is a credit against tax liability and is refundable for taxpayers with no tax liability. Taxpayers eligible for a larger rebate based on 2020 income will receive the balance in the 2020 tax season. Taxpayers with higher income in 2020 will have the overpayment forgiven.

## ASSISTANCE FOR SMALL BUSINESSES

In addition to specific tax relief provisions for small businesses (generally defined as businesses with less than 500 employees), the CARES Act contains other programs that will assist small business as they weather the impacts of the coronavirus:

○ **PAYCHECK PROTECTION PROGRAM** — \$350 billion is available to small businesses with 500 or fewer employees that require financial assistance to pay employees and maintain operations between February 15, 2020 and June 30, 2020, via a loan program through the Small Business Administration administered by local banks. All loans will have a maturity of two years and an interest rate of 1%, with a six-month deferral of principal and interest. There are no fees for the loan and all prepayment penalties are waived. Personal guarantees are not required and the loan is not secured by collateral. At least a portion of the

loan (and possibly all of the loan) will qualify for forgiveness (making it a grant), with 75% of the forgiven amount used for payroll costs and 25% used for rent, utilities, and interest on mortgages. The maximum amount of the loan is the lesser of \$10 million or 2.5 times average monthly payroll costs from the prior 12 months plus any outstanding balance from an economic injury disaster loan obtained between January 31 and April 3, 2020. The portion of employee’s wages exceeding \$100,000 annually are excluded from the average monthly payroll costs. Only payroll costs, rent, utilities, and mortgage interest incurred during the eight-week period after the date of the loan are forgivable. The amount of loan forgiveness may be reduced if the company reduced the number of employees compared to the prior year or if employee pay is reduced

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## INDIVIDUALS

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For example, a single filer with \$100,000 in 2019 adjusted gross income would not receive the rebate, but would receive a \$1,200 credit on his/her 2020 tax return if 2020 adjusted gross income fell below \$75,000. On the other hand, a single filer with \$50,000 in 2019 adjusted gross income would receive the \$1,200 advance rebate but would not have to pay it back if his/her adjusted gross income was \$100,000 in 2020.

To be eligible for the rebate, an individual must: 1) not be a nonresident alien, 2) not be claimed as a dependent on another taxpayer's return, 3) not be an estate or trust, and 4) must have a Social Security number for the taxpayer, spouse, and eligible children.

If the federal government has direct deposit information, the rebate will be directly deposited to your bank account. Otherwise, a check will be mailed, which will take much longer to receive. Individuals who receive Social Security benefits but do not file a tax return will also have the rebate direct deposited to their bank account. The Secretary of the Treasury has been directed to provide the rebate as rapidly as possible.

- **PANDEMIC UNEMPLOYMENT ASSISTANCE** — Through December 31, 2020, a temporary unemployment program will provide cash payments to individuals not traditionally eligible for unemployment who are unable to work due to the coronavirus. Individuals eligible include the self-employed, independent contractors, gig workers, low-wage employees, and individuals with a limited work history. Employees are not eligible for these benefits if they can telework with pay or are receiving paid sick or other paid leave benefits.

- **EXPANSION OF STATE UNEMPLOYMENT BENEFITS** — States who elect to participate in the federal program will extend regular unemployment benefits for an additional 13 weeks through December 31, 2020. Also, if the state had a one-week waiting period, the federal government will pay for that week of benefits so there is no waiting period. In addition to normal state unemployment benefits, workers will receive \$600 per week funded by the federal government for 16 weeks through July 31, 2020. Funds will also be provided to cover workers who have had their hours reduced but have not been laid off as a result of COVID-19.

- **CHARITABLE CONTRIBUTIONS** — For the 2020 tax year, up to \$300 of charitable contributions made by individuals can be taken as an above-the-line deduction. Thus, taxpayers who do not itemize deductions can claim a deduction for charitable contributions.

Also, the percentage of adjusted gross income limitations are increased for all taxpayers as well as for specific types of contributions. For the 2020 tax year, instead of the 50% of AGI limit for charitable contributions, individuals can claim an unlimited itemized deduction. For corporations, the 10% of AGI limitation is

increased to 25% for the 2020 tax year. The deduction for contributions of food inventory is increased to 25% of AGI from 15% for tax year 2020.

- **STUDENT LOANS PAID BY EMPLOYERS** — Payments by an employer of up to \$5,250 for an employee's educational loans can be excluded from income, if the payments were made by the employer after March 27, 2020 and before January 1, 2021. The loan must have been incurred to pay for the education of the employee, not for the employee's child or another relative. The payment can be made to the employee or to the lender. The \$5,250 cap applies to this loan repayment benefit and other educational assistance, such as tuition, fees, and books.
- **TEMPORARY STUDENT LOAN RELIEF** — All federally owned student loan and interest payments are deferred through September 30, 2020.
- **HEALTHCARE** — Private health insurance plans are prohibited from charging patients anything for COVID-19 testing, including deductibles, copayments, and coinsurance. Health insurance providers also cannot charge for preventive services and vaccines for coronavirus. ○○○



## SMALL BUSINESSES

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by more than 25%. Organizations rehiring workers who were laid off due to the COVID-19 crisis will not be penalized for having reduced payroll at the beginning of the period. A decision regarding a loan forgiveness application must be made within 60 days. If there is a balance remaining, the outstanding loan will have a maturity date of two years after the application for loan forgiveness. Businesses that receive this loan are not eligible for the employee retention credit or deferred payments of employer payroll taxes (details below).

- **EXPANDED ECONOMIC INJURY DISASTER LOAN (EIDL) PROGRAM** — While this program is also available to large businesses, it is available to small businesses with not more than 500 employees. EIDL loans of up to \$2 million are available at fixed annual interest rates of 3.75% for small businesses and 2.75% for nonprofits, with a maximum maturity of 30 years. Loans may be used to pay fixed debts, payroll, accounts payable, and other bills that can't be paid due to the impact of COVID-19. These loans are not eligible for forgiveness. Loan applications are submitted directly to the Small Business Administration. Applicants must show that they cannot obtain credit elsewhere.
- **EMERGENCY GRANTS** — The SBA can make emergency EIDL grants of up to \$10,000 to eligible businesses. The proceeds can be used to pay sick leave to affected employees, increased costs to obtain materials, rent or mortgage payments, and to repay obligations that cannot be met due to revenue losses.
- **DEFERRED PAYMENT OF EMPLOYER'S PORTION OF PAYROLL TAXES** — The payment of the employer's portion of Social Security payroll taxes for 2020 can be deferred over the following two years, with half

due by December 31, 2021 and half due by December 31, 2022. Businesses that have had debt forgiven under the Paycheck Protection Program are not eligible to defer payment of payroll taxes.

- **EMPLOYEE RETENTION TAX CREDIT** — Employers are eligible for the retention tax credit if it meets one of two tests: 1) Operations are fully or partially disrupted because of a government order limiting commerce and travel as a result of COVID-19. 2) Gross receipts for a quarter in 2020 are less than 50% of gross receipts for the same quarter in 2019, with eligibility ceasing following a quarter where gross receipts are greater than 80% of the previous year. Businesses with over 100 employees can only take the credit for wages paid to employees who are furloughed or faced reduced hours as a direct result of the coronavirus. Businesses with 100 or fewer full-time employees can take the credit for all paid wages. The retention credit is calculated by taking 50% of the qualified wages for each employee during the eligible period of March 12, 2020 to January 1, 2021. The maximum amount of wages used for the credit is \$10,000, mean the credit cannot exceed \$5,000 per employee. The credit is used against the employer's share of Social Security payroll taxes. If the credit for the quarter exceeds this amount, the excess is treated as a tax overpayment and is refunded to the employer. Businesses that have had debt forgiven under the Paycheck Protection Program are not eligible for the employee retention tax credit.
- **NET OPERATING LOSSES** — Net operating losses arising in 2018, 2019, and 2020 can be carried back for five years. Businesses can amend or modify tax returns for tax years back to 2013 to take advantage of the carryback. Current law only allows farming net operating losses to be carried back for two years. Also, loss limitation

rules for sole proprietors and passthrough entities are eliminated to allow them to take advantage of the carryback. Net operating losses from before January 1, 2021 can fully offset income, instead of the current limitation of 80% of taxable income.

- **ALTERNATIVE MINIMUM TAX CREDITS** — The alternative minimum tax for corporations was eliminated for tax years after 2017, with corporations able to claim a refundable portion of unused minimum tax credits through 2021. The refundable credit is limited to 50% of any excess minimum tax in 2018 through 2020, then fully refundable in 2021. The CARES Act accelerates the fully refundable credit to 2019 and allows corporations to elect to claim the fully refundable minimum tax credits in 2018.
- **BUSINESS INTEREST EXPENSE LIMITATION** — Current law limits the deduction for business interest for tax years beginning after 2017 to the amount of interest income plus 30% of adjusted taxable income for the year. That limitation has been increased to 50% of the taxpayer's adjusted gross income for 2019 and 2020. The limitation for 2020 can be based on adjusted gross income for 2019 to counter the likelihood that incomes in 2020 will not be higher because of the impacts of the coronavirus.
- **QUALIFIED IMPROVEMENT PROPERTY** — Current law allows 100% bonus depreciation for property with a recovery period of 20 years or less. A glitch in current law defines qualified improvement property as 39-year residential improvement property, not eligible for the bonus depreciation. The CARES Act now defines qualified improvement property as 15-year property, allowing 100% of improvements to be deducted in the year incurred, effective for property acquired and placed in service after September 27, 2017. ○○○

## CARES PROVISIONS FOR RETIREMENT PLANS

Several provisions in the CARES Act relate to retirement plan distributions (eligible retirement accounts include individual retirement accounts (IRAs), 401(k) plans, and other qualified plans):

- **EARLY WITHDRAWALS FROM QUALIFIED PLANS** — During 2020, the 10% penalty on early withdrawals of up to \$100,000 from qualified retirement plans is waived for coronavirus-related distributions. A coronavirus-related distribution is one made to an individual or the individual's spouse diagnosed with COVID-19 or to an individual experiencing adverse financial consequences from a quarantine, business closure, layoff, or reduced hours due to the virus. Any income attributable to the early withdrawal is subject to tax over a three-year period. Withdrawn

amounts can be recontributed to a qualified retirement plan without worrying about annual caps on contributions as long as they are recontributed within three years.

- **LOANS FROM QUALIFIED PLANS** — Between March 27, 2020 and September 23, 2020, the maximum loan that can be taken from a qualified retirement plan is increased from \$50,000 to \$100,000 or 100% of the vested account balance for participants impacted by the coronavirus.
- **LOAN REPAYMENTS** — Any qualified retirement plan loan repayments due between March 27, 2020 and December 31, 2020 may be deferred for one year from each payment due date.

- **REQUIRED MINIMUM DISTRIBUTION (RMD) RULES** — Any RMDs required during 2020 from qualified defined contribution plans do not have to be made. This rule also applies to situations where the participant reached age 70½ during 2019 and was going to make his/her first RMD on April 1, 2020.

- **INHERITED PLAN FUNDS** — For beneficiaries of a deceased participant's plan who must take their entire distribution by the end of the fifth year following the participant's death, 2020 does not count toward the five-year period. ○○○

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### PLEASE CALL

The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into law by President Trump on March 27, 2020. With a cost of \$2.2 trillion, this is the most expensive piece of legislation ever passed. The law is over 800 pages long and contains hundreds of provisions providing relief for individuals and businesses in the wake of the coronavirus health crisis.

The articles in this newsletter cover major provisions in the CARES Act that impact individuals, retirement plans, and small businesses. Due to its sweeping nature, there are many more provisions that may apply to individual situations. Please call if you'd like to discuss the CARES Act in more detail. ○○○

## OTHER CARES ACT PROVISIONS

Individuals and small businesses are set to receive approximately \$937 billion of the total \$2.2 trillion aid package, leaving most of the package for other sectors of our economy:

- **EMERGENCY LENDING TO BUSINESSES, STATES, AND CITIES** — \$454 billion of loans will be available, which must be paid back within five years and cannot be forgiven. This includes \$25 billion in loans for airlines, \$4 billion for air cargo firms, and \$17 billion for firms deemed critical to U.S. national security. Firms taking loans cannot engage in stock buybacks for the loan's duration plus one year and must retain at least 90% of its employment level as of March 24, 2020. Lending will be overseen by a Congressional Oversight Commission and a Special Inspector General. The president, vice president, members of the Cabinet, and members of Congress are barred from benefiting from the funds provided for corporations.

- **CORONAVIRUS RELIEF FUND** — A

\$150 billion relief fund is established for state and city government expenditures incurred to deal with COVID-19. Allocated by population proportions, each state will receive a minimum of \$1.25 billion.

- **PUBLIC HEALTH** — \$100 billion is available to hospitals responding to the coronavirus. Additional funds are available for diagnostics, treatments, and vaccines and to prioritize and expedite the approval of new drugs. The Strategic National Stockpile has been given \$16 billion to increase availability of equipment, including ventilators and masks.
- **FOOD SECURITY PROGRAMS** — Over \$23 billion has been allocated to give schools more flexibility in providing meals to students, increases to food stamp funding, and funds for food banks and other community food distribution programs.
- **EDUCATION** — Numerous provisions assist college students with various government programs. ○○○