The Kiplinger Tax Letter

CIRCULATED BIWEEKLY TO BUSINESS CLIENTS SINCE 1925

1100 13th Street NW, Washington, DC 20005 • kiplinger.com • **Vol. 95, No. 7**

Dear Client: Washington, April 3, 2020

HIGHLIGHTS
More on Stimulus Business taxes
Filing Season July 15 due date
IRAs Contributions for 2019
Foreign Accounts FBAR filings
IRS Enforcement easings
In Congress Stimulus phase four

The new stimulus law has lots of tax easings. Individual and business taxpayers get relief in the massive $2 trillion-plus economic aid package.

Start with direct payments to individuals, structured as federal income tax rebates, of $1,200 for singles and $2,400 for couples filing jointly, plus $500 more for each child under age 17.

High-incomers won't get the money. The rebates will start to phase out for joint filers with adjusted gross incomes above $150,000... $112,500 for household heads, $75,000 for singles... and completely phase out at AGIs of $198,000, $136,500 and $99,000 respectively.

Anyone who can be taken as a dependent by another filer won't get a rebate... think high-school children age 17 or older, college students and ailing parents.

Ditto for people without Social Security numbers for themselves or their kids.

To figure your upcoming rebate, we have a stimulus calculator you can use. Go to *www.kiplinger.com/links/stimulus* and answer a few simple questions.

Most people need to have filed a 2018 or 2019 tax return to get a payment because the rebates will generally be based on information from those returns. IRS will first look at the 2019 return for filing status, AGI and number of children. If a return wasn't filed for 2019, then IRS will use the data on 2018 returns.

Social Security recipients who typically don't have to file returns needn't file. IRS will use Form SSA-1099, the Social Security Benefit Statement, for rebate purposes. Others who usually don't file a return should file a simple 2019 return, IRS says.

Technically, the rebate is an advance payment of a special 2020 tax credit.

On your 2020 return, you'll reconcile your rebate. For most, the rebate will equal the tax credit allowed. Taxpayers whose credits exceed their rebates can claim the balance on their 2020 returns. Although we don't yet know for certain, we expect you won't have to repay IRS if the payment you got is more than your credit.

The Revenue Service will move as fast as it can on sending out rebates.

The hope is for people with direct deposit to begin getting funds by mid-April. This applies to individuals who after 2017 received tax refunds or federal benefits via direct deposit. That's because the government has the bank account information.

People without bank accounts on file with the government will wait longer...

At least five weeks, but for many it could be months...until they see checks arrive in the mailbox, because IRS plans to send out about 5 million checks a month. IRS says it will be developing a web tool for people to provide bank account data, so that these individuals can receive payments by direct deposit instead of check.

IRS will mail a letter to each eligible person within 15 days of the payment. The notice will indicate the method and amount of payment and give a phone number to call if you haven't got your money. So make sure IRS has your correct address.

Turn to page 2 for more on the tax relief in the latest stimulus law.

The Kiplinger Tax Letter (ISSN 0023-1762) is published biweekly for $147/one year, $249/two years, $331/three years by The Kiplinger Washington Editors, Inc., part of the Dennis Publishing Ltd. Group, London, United Kingdom. POSTMASTER: Send address changes to The Kiplinger Tax Letter, P.O. Box 420308, Palm Coast, FL 32142-0308.

Subscription inquiries and customer service: Call 800-544-0155; e-mail kiplingertaxletter@emailcustomerservice.com; or visit kiplinger.com/customer-service
Editorial information: Tel., 202-887-6457; e-mail, letters@kiplinger.com
Mailing address: 1100 13th St. NW, Suite 1000, Washington, DC 20005-4364.

MORE ON STIMULUS

More cash donations to charity can be deducted for 2020 under the new law. The 60%-of-AGI limit on cash donations by individuals is suspended. Gifts to donor-advised funds and private nonoperating foundations are excluded.

The taxable income limit on charitable gifts of cash by C corps rises to 25%.

Plus, nonitemizers can write off up to $300 of charitable cash contributions. This is a new above-the-line deduction for individuals who don't file Schedule A.

The package includes three key retirement-related easings for 2020:

Individuals can skip taking their required minimum distributions from IRAs and workplace plans, such as a 401(k) or 403(b), for this year without penalty.

The 10% penalty on pre-age-59½ payouts from retirement accounts is waived on up to $100,000 of coronavirus-related payouts. Also, funds repaid within three years are treated as tax-free rollover distributions...otherwise, tax is spread over three years.

Eligible individuals can borrow more from workplace plans such as 401(k)s... up to the lesser of $100,000 or 100% of the account balance...until Sept. 23. And repayments on retirement plan loans due in 2020 are delayed for one year.

Employers can help pay down up to $5,250 in workers' college loans in 2020. The payments are excluded from the workers' wages for federal tax purposes.

Health flexible spending arrangements are expanded, beginning this year.

Ditto for health savings accounts and health reimbursement arrangements. Funds from FSAs, HSAs and HRAs can be used to buy over-the-counter medicines without the need of a doctor's prescription, as well as menstrual care products.

The 7.5% airline ticket tax is suspended through the end of the year.

Payroll tax relief for employers and self-employed individuals is included.

Employers can defer payment of their 6.2% share of Social Security tax on wages paid from March 27 through Dec. 31. Half of the deferred amount is due on Dec. 31, 2021, and the other half on Dec. 31, 2022. Employers still have to timely deposit the employees' share. Self-employeds can defer 50% of SECA tax.

There's a new payroll tax credit for employers hurt by the coronavirus...

But who continue to retain and pay workers. The credit of up to $5,000 per paid employee offsets the employer's 6.2% share of Social Security taxes, with the excess refundable. Eligible employers are those who have to close up shop or reduce hours because of a governmental order, or who have a large drop in receipts.

There are lots of rules and complexities, including how the payroll tax breaks interact with other stimulus benefits in the new law, such as small business loans.

Three tax reform changes affecting businesses are temporarily eased.

Net operating losses in 2018, 2019 and 2020 can be carried back five years. And the 80% taxable income limit for utilizing NOLs is halted for 2018 through 2020.

The limit for deducting interest on business debt by some firms is increased. Net interest write-offs are capped at 50% of adjusted taxable income...up from 30%... for 2019 and 2020. Firms can use 2019 ATI for figuring 2020 interest deductions.

The cap on the deduction for business losses on individual returns is halted. Under tax reform, the amount of trade or business losses over $500,000 for couples and $250,000 for other filers was nondeductible, with any excess carried forward. The stimulus law suspends this loss limitation rule generally for 2018 through 2020.

A key technical glitch in the 2017 tax reform law has been corrected.

It involves depreciation for restaurant, retail and leasehold remodeling, which is consolidated under the grouping of qualified improvement property. Congressional Republicans intended to give QIP a 15-year depreciable life and to make it eligible for 100% bonus depreciation. But the statutory language didn't reflect this intent. Lawmakers have now fixed this flub, retroactive to 2018.

PAYROLL TAXES

Eligible employers get guidance on claiming new refundable payroll tax credits for providing mandated paid sick and family leave to employees affected by COVID-19…and for retaining workers and paying wages when business is shuttered, partially closed or otherwise experiencing a significant decline in gross receipts.

Employers can get the breaks quickly by reducing employment tax deposits otherwise owed to IRS by the amount of payroll credits the business qualifies for. Employment taxes that can be reduced include withheld federal income tax and the employees' and employer's share of Social Security tax and Medicare tax.

Firms can seek advance payment for credits in excess of payroll deposits by filing new Form 7200. IRS hopes to process the forms within two weeks. Employers will need to reconcile the payroll tax credits, reduced deposits and any advance payments they got when they file their quarterly Form 941.

FILING SEASON

Taxpayers have until July 15 to file returns and pay 2019 income taxes. After some initial confusion, the Service delayed the April 15 deadline for filing federal income tax returns and paying federal income taxes, in response to President Trump declaring the coronavirus pandemic a national emergency. The relief applies to individuals, regular corporations (C corps) with a calendar-year end, and others who were originally required to file an income tax return by April 15. Self-employment taxes owed by proprietors and others are also deferred to July 15. There is no limit on the amount of the tax payment that is postponed.

The first-quarter estimated-tax-payment due date is deferred to July 15. As of now, the deadline for the second-quarter payment remains June 15.

The longer deadline also applies to gift tax returns filed on Form 709. Ditto for generation-skipping transfer taxes. Estate tax returns are not extended.

Look for IRS to issue more guidance on tax filing and payment relief.

You needn't file for an extension. The three-month delay is automatic.

IRS won't charge interest or penalties from April 16 through July 15. Interest and penalties will start accruing on July 16 on overdue taxes or late returns.

If you're not ready to file by July 15, you can get an extension to Oct. 15. But remember, this additional time will extend only the tax return filing due date. You'll still need to figure the tax you owe and pay that by July 15 to avoid penalties.

What if you already filed your 2019 return, owe taxes and haven't yet paid? You don't have to do anything except pay the tax you owe by July 15 at the latest.

If you filed, owed taxes and scheduled an April 15 payment date…

IRS won't automatically reschedule payment to July 15. You'll have to do it. If you scheduled the payment through the Electronic Federal Tax Payment System or IRS Direct Pay, just go to the applicable website to cancel the payment date. If you authorized an electronic funds withdrawal as part of filing your return, you'll have to call the U.S. Treasury Financial Agent at (888) 353-4537 to revoke it. And if you scheduled the payment by debit or credit card, contact the card processor.

IRAs

Individuals now have more time to make IRA contributions for 2019.

Your IRA payin is due by July 15. Be sure that you tell your IRA custodian to apply the contribution to the 2019 year. The most you can contribute for 2019 is $6,000, plus an additional $1,000 for people who were 50 and older last year.

And you have until July 15 to fund your health savings account for 2019.

FOREIGN ACCOUNTS

The filing date for owners of foreign accounts remains April 15.

But those who miss the deadline get an automatic six-month extension to Oct. 15. You don't have to request the additional time. U.S. taxpayers with foreign financial accounts whose total value exceeded $10,000 at any time in 2019 are required to electronically submit FinCEN Form 114 to report the offshore accounts.

IRS

The Service is short-staffed right now. Blame the coronavirus pandemic. IRS had to close many of its offices and even some key service centers. And it cut much of its staff at mission-critical sites to comply with social distancing. Additionally, all Taxpayer Assistance Centers are shuttered during this time. Telework-eligible employees are working from home, but not all workers can do that.

Expect very long wait times on IRS's toll-free customer service numbers.

The practitioner priority service phone line that preparers rely on is closed until further notice. Same goes for the e-Services help desk line and some others.

New income verification express services have been temporarily suspended. And IRS is experiencing delays with processing existing income verification requests.

Also, the mail is piling up. Taxpayers and tax pros will have to wait longer for a response to written correspondence they sent to IRS. Look for this mail backlog to continue even after the Revenue Service is able to reopen all of its offices.

IRS is temporarily halting most of its enforcement and collection actions.

The easing runs from April 1 through July 15, though it may be extended.

On the enforcement side: IRS won't begin new field or correspondence audits. Existing exams will continue remotely, if possible. There will be no in-person meetings. The agency's appeals office will continue to work cases by phone or videoconference. And taxpayers have more time to respond to earned income tax credit reviews.

On the collection side: Payments under existing installment agreements can be postponed. Liens and levies are suspended, whether initiated by revenue officers or IRS's automated collection system. IRS may still go after high-income nonfilers. New delinquent tax accounts will not be referred to private tax-debt collectors. And taxpayers have more time for handling compromise offers for back taxes.

IRS has a COVID-19 web page. You can find it at *www.irs.gov/coronavirus*. It includes a set of questions and answers on the new July 15 federal tax deadline, as well as FAQ on the employer payroll tax credits under the stimulus laws. You can also view formal guidance, news releases, statements and other documents for details on the many federal tax changes in response to the COVID-19 emergency.

IN CONGRESS

Lawmakers have enacted three coronavirus-related federal stimulus laws.

But their job is far from over. Many in D.C. expect one or two more packages of stimulus to help the U.S. economy recover from the effects of COVID-19.

What will future bills look like? It depends on whom you ask. Democrats would like expanded credits for struggling families, more direct payments to individuals, and funds to shore up pension plans and hospitals, among other things. GOPers want tax breaks for affected industries, lower tax rates for individuals and permanency of the tax reform changes. Both parties are eyeing infrastructure.

Will the deduction for business entertainment costs be restored?

That's what President Trump wants. He thinks it will help restaurants. He asked Treasury to handle this, but it's unclear what Treasury can do on its own without Congress. Remember that tax reform nixed this popular deduction after 2017.

Yours very truly,

The Kiplinger Editors

April 3, 2020

THE KIPLINGER WASHINGTON EDITORS

P.S. Remember your Tax Letter subscription includes free online access and delivery to your e-mail inbox...a good backup in the unlikely event that printing or mail service is disrupted by the epidemic. Visit *kiplinger.com/go/email* to sign up.