Wealth Planning Insights

Coronavirus Tax Relief Measures and Suggested Action Steps

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Our client tax services team is closely monitoring the changing tax landscape and will keep you up to date on important developments, such as several key tax provisions in the CARES Act, recently signed into law by President Trump.

Congress, the IRS, and state taxing authorities are working to provide tax relief and economic stimulus during this difficult time. This *Wealth Planning Insights* focuses on tax-related measures in four categories:

- Administrative relief — filing deadlines
- Retirement account provisions
- Charitable contributions
- Deductibility of net operating losses and business losses

Filing and Payment Deadlines

Federal income tax filings and payments due on April 15, 2020, have been automatically postponed until July 15, 2020. This will apply to federal gift and generation-skipping transfer tax filings and payments as well. The first quarter estimated income tax payment is also postponed until July 15, 2020. Although it is a curious result, the second quarter estimated income tax payment due on June 15, 2020, has not been postponed, so it is now due one month prior to the first quarter payment.

We are exploring whether it will be practicable to simply increase the 2019 extension payment due on July 15, 2020, to include the first and second quarter 2020 estimated income tax amounts. This creates a 2019 overpayment that would be applied to 2020 estimated tax, an approach commonly used by tax professionals.

Most states have conformed to the federal changes or adopted an alternate due date. At this point, only New Hampshire has not extended its original filing and payment deadline. However, some states are charging interest on payments made after the original due date.

Action step: Filing and payment deadlines have been postponed from the normal April 15 due date, so taxpayers should plan to make 2019 extension payments and the first two 2020 estimated tax payments by July 15, 2020.

Retirement Account Provisions

The deadline to contribute to a traditional or Roth IRA has been extended to coincide with the new 2019 federal income tax filing date of July 15, 2020.

Additionally, the CARES Act contains three significant provisions affecting qualified plan distributions:

1. The required minimum distribution (RMD) rule has been waived for 2020 for all retirement accounts. It is also waived for any deferred 2019 RMDs due April 1, 2020. In certain situations, taxpayers who have already taken their RMD may be able to return the payment. If the RMD was taken within 60 days, it can be rolled back into the IRA with no tax cost or penalty. There is, however, no ability to return an RMD from an inherited IRA. If the RMD was taken more than 60 days ago, there is presently limited recourse.

2. Qualified taxpayers who have not reached age 59 ½ can take a "coronavirus-related distribution" of up to $100,000 in 2020 and avoid the 10% penalty on early distributions. The distribution will still be subject to income tax and can be included in income ratably over a three-year period. The distribution can also be repaid to the retirement account during this same period.

3. The amount an individual can borrow from a retirement plan in 2020 is increased from $50,000 to $100,000. The maximum repayment period has been increased from five to six years.

Action step: Taxpayers who have not yet taken an RMD in 2020 should consider canceling the distribution. Taxpayers who have already taken a 2020 RMD within the last 60 days should consider returning the payment. This will reduce taxable income in 2020 and allow further tax-deferred growth within retirement plans.

Charitable Contributions

For 2020 only, the CARES Act has increased the limit for deducting cash contributions to public charities from 60% of adjusted gross income (AGI) to 100% of AGI.

- This expanded limit does not apply to cash contributions to donor-advised funds, supporting organizations, or private foundations.
- For 2020, the 100% limit can be reached by making qualified cash contributions beyond the current AGI limitations for other gifts. For example, a taxpayer who contributed long-term appreciated securities to charity equal to 30% of AGI could then increase 2020 charitable deductions by making cash contributions to public charities up to an additional 70% of AGI.

  Similarly, a taxpayer who contributed cash to a donor-advised fund equal to 60% of AGI, could then make additional deductible contributions of cash to public charities up to 40% of AGI.
- Excess contributions may be carried forward to offset income in the following five years.

Action step: Taxpayers considering significant charitable contributions in 2020 can deduct up to 100% of AGI this year by making cash contributions to public charities — but not to donor-advised funds, supporting organizations, or private foundations.

Net Operating Losses

Under prior law, net operating losses incurred after 2017 could only be carried forward and could offset a maximum of 80% of taxable income. The CARES Act made two significant temporary changes to these rules:

1. Net operating losses incurred from 2018 through 2020 can now be carried back for up to five years.
2. Net operating losses may offset up to 100% of taxable income for any year prior to 2021.

Action step: Taxpayers with net operating losses should consider filing carryback claims to generate tax refunds from prior years.

Excess Business Losses

Under prior law, a yearly cap of $250,000 ($500,000 if married filing jointly) was imposed on the deductibility of business losses used to offset non-business income. Losses beyond this amount were converted into a net operating loss and subject to the rules noted above. The CARES Act removes this restriction retroactively to January 1, 2018, through 2020.

Action step: Taxpayers who were affected by the limitation on excess business losses in 2018 (and 2019, if returns have been filed) should consider filing amended returns to claim tax refunds.

Roth IRA Conversions

Some of the changes noted above may serve to further reduce or even eliminate the tax cost connected with a Roth conversion. Converting a traditional IRA into a Roth IRA is an easy process. The assets held in the traditional IRA are simply transferred over into a Roth account. The value of the assets on the day of conversion must be included in taxable income. The tax cost to convert is reduced when market values are depressed.

Action step: Taxpayers who hold traditional IRAs should strongly consider a Roth conversion under the following circumstances:

- They are considering substantial cash contributions to public charities other than donor-advised funds, supporting organizations, or private foundations.
- They will have a net operating loss in 2020.
- They will have significant business losses in 2020.

We hope this information is helpful. If you have any questions, please contact your Bessemer client advisor, who can connect you with one of our senior tax consultants.

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