

**From the desk of
Peter S. Muffoletto, C.P.A.**

Individual Tax Relief Provided by the CARES Act

Recovery rebates for individuals

To assist individuals in staying 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 additional payment will be sent to taxpayers for each qualifying child dependent under age 17 (using the qualification rules under the Child Tax Credit).

The payments are gradually phased out at a rate of 5% of the individual's adjusted gross income over \$75,000 (singles or marrieds filing separately), \$122,500 (head of household), and \$150,000 (joint).

There is no income floor or "phase-in" with all recipients who are under the phase-out threshold will receive the same amounts.

Tax filers must have provided on the relevant tax returns or other documents (see below), Social Security Numbers (SSNs) for each family member for whom a rebate is claimed.

Adoption taxpayer identification numbers will be accepted for adopted children.

SSNs are not required for spouses of active military members.

The payments are not available to nonresident aliens, estates and trusts, or to individuals who themselves could be claimed as dependents.

The payments will be paid out in the form of checks or direct deposits.

Most individuals will not have to take any action to receive the payment.

The IRS will compute the amount to be paid to each individual based on a taxpayer's tax year 2019 return (or tax year 2018, if no 2019 return has yet been filed).

If no 2018 return has been filed the IRS will use information for 2019 provided in Form SSA-1099, Social Security Benefit Statement, or Form RRB-1099, Social Security Equivalent Benefit Statement.

Payments are payable whether or not tax is owed thus individuals who had little or no income such as those who filed returns simply to claim the refundable earned income credit or child tax credit, qualify for a rebate.

Waiver of 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 (a qualified individual).

Penalty-free distributions are limited to \$100,000, and may subject to guidelines be re-contributed to the plan or IRA.

Income taxes arising from the distributions are to be spread out over three years unless the employee elects to pay the tax immediately.

Employers may amend defined contribution plans to provide for these distributions.

Additionally defined contribution plans are permitted additional flexibility in the amount and repayment terms of loans to employees who are qualified individuals.

Waiver of Required Distribution Rules

Required Minimum Distributions (RMD) 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 age 70 1/2 in 2019.

Charitable Deduction Liberalized

The CARES Act makes four 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) does not apply to cash contributions made generally to public charities in 2020 (qualifying contributions).
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.
3. Similarly the limitation on charitable deductions for corporations that is generally 10% of (modified) taxable income does not apply to qualifying contributions made in 2020.
Instead a corporation's qualifying contributions reduced by other contributions can be as much as 25% of (modified) taxable income.
No connection between the contributions and COVID-19 activities is required.
4. For contributions of food inventory made in 2020 the deduction limitation increases from 15% to 25% of taxable income for C corporations and, for other taxpayers, from 15% to 25% of the net aggregate income from all businesses from which the contributions were made.

Exclusion for Employer Payments of Student Loans

An employee currently may exclude \$5,250 from income for benefits from an employer-sponsored educational assistance program.

The CARES Act expands the definition of expenses qualifying for the exclusion to include employer payments of student loan debt made before January 1, 2021.

Break for remote care services provided by high deductible health plans

For plan years beginning before 2021 the CARES Act allows high deductible health plans to pay for expenses for tele-health and other remote services without regard to the deductible amount for the plan.

Break for nonprescription medical products

For amounts paid after December 31, 2019 the CARES Act allows amounts paid from Health Savings Accounts and Archer Medical Savings Accounts to be treated as paid for medical care even if they are not paid under a prescription.

In addition amounts paid for menstrual care products are treated as amounts paid for medical care.

For reimbursements after December 31, 2019 the same rules apply to Flexible Spending Arrangements and Health Reimbursement Arrangements.

We here at Muffoletto & Company believe that the more informed you are in regards to the rules and regulations that affect you the more we can be of service.

**Should you have questions relating to any tax or financial matters call at
(818) 346-2160,
or you can visit us on the web at
www.petemcpa.com!**

Providing individuals, small businesses, corporations, partnerships, professionals, and other business entities with the necessary guidance and answers for a complex world.

IMPORTANT NOTICE

The contents of this email and any attachments to it may contain privileged and confidential information from Muffoletto & Company.

This information is only for the viewing or use of the intended recipient. If you are not the intended recipient, you are hereby notified that any disclosure, copying, distribution or use of, or the taking of any action in reliance upon, the information contained in this e-mail, or any of the attachments to this e-mail, is strictly prohibited and that this e-mail and all of the attachments to this e-mail, if any, must be immediately returned to Muffoletto & Company or destroyed and, in either case, this e-mail and all attachments to this e-mail must be immediately deleted from your computer without making any copies hereof.

If you have received this e-mail in error, please notify Muffoletto & Company by e-mail immediately.

To ensure compliance with Treasury Department regulations, we wish to inform you that, unless expressly stated otherwise in this communication (including any attachments) any tax advice that may be contained in this communication is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

If you prefer not to remain on our email lists, please let us know.

We will remove you as soon as you notify us.

You may do so by emailing us at

pete@petemcpa.com