CORRIGAN FINANCIAL, INC.

To our Valued Clients and Friends:

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. In addition to the summary of IRS actions and earlier-enacted federal tax legislation, we want to update you on the tax-related provisions in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, Congress's historic economic stimulus package that the President signed into law on March 27, 2020.

To help navigate through the wealth of information, we have detailed below summaries of the CARES Act by Individual and Business provisions. Ongoing information on the IRS and tax legislation response to COVID- 19 can be found at https://www.irs.gov/coronavirus.

Please contact us with questions or concerns. We will be providing you with summaries of additional developments as they take place.

Best Regards,

Andre Khalfayan, CPA/PFS, MST
Director of Financial Planning and Tax Services

Individual Provisions

Recovery rebates for individuals. To help individuals stay afloat during this time of economic uncertainty, the government will send payments of up to $1,200 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 (using the qualification rules under the Child Tax Credit).

Rebates are gradually phased out at a rate of 5% of the individual's adjusted gross income over $75,000 (single or married filing separately), $122,500 (head of household), and $150,000 (joint). Taxpayers must have provided, on the relevant tax returns or other documents, Social Security Numbers (SSNs) for each family member for whom a rebate is claimed. Adoption taxpayer identification numbers will be accepted for adopted children. The rebates are not available to nonresident aliens, to estates and trusts, or to individuals who themselves could be claimed as dependents.

The rebates will be paid out in the form of checks or direct deposits. **Most individuals won't have to take any action to receive a rebate**. **The IRS has announced that most qualifying taxpayers will receive payments within the next three weeks.** The IRS will compute the rebate 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.

Rebates 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 recontributed 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. 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 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 deductions. The CARES Act creates an above-the-line charitable deduction for 2020 (not to exceed $300). The bill also modifies the AGI limitations on charitable contributions for 2020, to 100% of AGI for individuals and 25% of taxable income for corporations.

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.

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.

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 aren't paid under a prescription. And, 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.

Enhanced unemployment benefits. The three most significant provisions of the CARES Act that strengthen and extend unemployment benefits include:

- Section 2104, which provides most individuals an emergency increase in traditional unemployment insurance benefits of $600 per week through July 31, 2020, likely increasing benefits beyond what many workers were earning before becoming unemployed;

- Section 2102, the Pandemic Unemployment Assistance program, which provides up to 39 weeks of benefits to people not otherwise eligible for regular unemployment compensation (including the self-employed and those who have exhausted their regular and extended benefits); and

- Section 2107, which creates the Pandemic Emergency Unemployment Compensation program to provide 13 weeks of emergency unemployment insurance for people who remain unemployed after they have exhausted their benefits or are not otherwise eligible for benefits.

Business Provisions

Paycheck Protection Program. The CARES Act's Paycheck Protection Program (PPP), offered through the Small Business Administration (SBA) provides another source of help. Under this program, the SBA backs small business loans through local lenders. Here are the particulars of this loan program:

- Offered to small businesses with fewer than 500 employees, select types of business with fewer than 1,500 employees, non-profits, and Veteran organizations.

- Self-employed, sole proprietors, freelance and gig economy workers are also eligible to apply.

- Loans are given up to a maximum of the lesser of $10 million, or 2.5 times the average monthly payroll costs including wages for employees making under $100,000, as well as expenses for paid sick leave, healthcare and other benefits over the previous year.

- The maximum interest rate under this program is 4%.
- The loan term is up to 10 years.
- No personal guarantee or collateral is required for the loan.
- Payments are deferred up to 6 to 12 months.
- Part of this loan may be forgiven and not counted as income to you, if it is spent during the first 8 weeks on operating expenses.

Loans are forgiven when the proceeds are used for any of these costs:

- Payroll costs, excluding prorated amounts for individuals with compensation greater than $100,000.
- Rent pursuant to a lease in force before February 15, 2020.
- Electricity, gas, water, transportation, telephone, or internet access expenses for services which began before February 15, 2020.
- Group health insurance premiums and other healthcare costs.

In order for the amounts to be forgiven, you must maintain the same average number of employees for the first eight-week period beginning on the origination date of the loan as you did from February 15, 2019 through June 30, 2019 or from January 1, 2020 until February 29, 2020. If you don't meet this requirement, the amount forgiven is reduced. You incur additional reductions if you cut compensation for employees who make under $100,000 by more than 25%, as compared to the most recent quarter. An employer who receives a loan under the PPP is not

eligible to also claim an employee retention credit.
Visit SBA.gov/Coronavirus for more information on the PPP.

Employee retention credit for employers. Eligible employers can qualify for a refundable credit against, generally, the employer's 6.2% portion of the Social Security (OASDI) payroll tax (or against the Railroad Retirement tax) for 50% of certain wages (see below) paid to employees during the COVID-19 crisis.

The credit is available to employers carrying on business during 2020, including non-profits, whose operations for a calendar quarter have been fully or partially suspended as a result of a government order limiting commerce, travel or group meetings. The credit is also available to employers who have experienced a more than 50% reduction in quarterly receipts, measured on a year-over-year basis relative to the corresponding 2019 quarter, with the eligible quarters continuing until the quarter after there is a quarter in which receipts are greater than 80% of the receipts for the corresponding 2019 quarter.

For employers with more than 100 employees in 2019, the eligible wages are wages of employees who aren't providing services because of the business suspension or reduction in gross receipts described above.

For employers with 100 or fewer full-time employees in 2019, all employee wages are eligible, even if employees haven't been prevented from providing services. The credit is provided for wages and compensation, including health benefits, and is provided for the first $10,000 in eligible wages and compensation paid by the employer to an employee. Thus, the credit is a maximum $5,000 per employee.

Wages don't include (1) wages taken into account for purposes of the payroll credits provided by the earlier Families First Coronavirus Response Act for required paid sick leave or required paid family leave, (2) wages taken into account for the employer income tax credit for paid family and medical leave or (3) wages in a period in which an employer is allowed for an employee a work opportunity credit. An employer can elect to not have the credit apply on a quarter-by-quarter basis. The credit is not available to employers receiving a covered Paycheck Protection Loan. The credit is provided for wages paid after March 12, 2020 through December 31, 2020.

Delayed payment of employer payroll taxes. Taxpayers (including sole proprietors) will be able to defer paying the employer portion of certain payroll taxes through the end of 2020, with all 2020 deferred amounts due in two equal installments, one at the end of 2021, the other at the end of 2022. Taxes that can be deferred include the 6.2% employer portion of the Social Security (OASDI) payroll tax and the employer and employee representative portion of Railroad Retirement taxes (that are attributable to the employer 6.2% Social Security (OASDI) rate). The relief isn't available if the taxpayer has had debt forgiveness under the CARES Act for certain loans under the Small Business Act as modified by the CARES Act. For sole-proprietors, the deferral applies to 50% of their self-employment taxes.

Net operating losses. The 2017 Tax Cuts and Jobs Act (the 2017 Tax Law) limited NOLs arising after 2017 to 80% of taxable income and eliminated the ability to carry NOLs back to prior tax 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, taxpayers can take an NOL deduction equal to 100% of taxable income (rather than the present 80% limit). For tax years beginning after 2021, taxpayers will be eligible for: (1) a 100% deduction of NOLs arising in tax years before 2018, and (2) a deduction limited to 80% of taxable income for NOLs arising in tax years after 2017.

Deferral of noncorporate taxpayer loss limits. The CARES Act retroactively turns off the excess active business loss limitation rule of the TCJA in Code Sec. 461(1) by deferring its effective date to tax years beginning after December 31, 2020 (rather than December 31, 2017). (Under the rule, active net business losses in excess of $250,000 ($500,000 for joint filers) are disallowed by the 2017 Tax Law and were treated as NOL carryforwards in the following tax year.) Accordingly, taxpayers who had losses suspended because of this provision in 2018 or 2019 should consider the benefits of filing an amended return.

Technical correction to restore faster write-offs for interior building improvements. The CARES Act makes a technical correction to the 2017 Tax Law that retroactively treats (1) a wide variety of interior, non-load-bearing building improvements (qualified improvement property (QIP)) as eligible for bonus depreciation (and hence a 100% write-off) or for treatment as 15-year MACRS property or (2) if required to be treated as alternative depreciation system property, as eligible for a write-off over 20 years. The correction of the error in the 2017 Tax Law restores the eligibility of QIP for bonus depreciation, and in giving QIP 15-year MACRS status, restores 15-year MACRS write-offs for many leasehold, restaurant and retail improvements.

Pension funding delay. The CARES Act gives single employer pension plan companies more time to meet their funding obligations by delaying the due date for any contribution otherwise due during 2020 until January 1, 2021. At that time, contributions due earlier will be due with interest.