TAX ARTICLE

INSIGHT: TAX IMPLICATIONS OF QUARANTINE

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The Treasury Department has extended both the filing and payment deadline for federal taxes, and legislation is pending to help employers and employees. Olga Lubomirsky of Mazars walks through the legislation and explains how to utilize tax-loss harvesting to further manage your taxes.

In these uncertain times related to the COVID-19 Coronavirus outbreak, tax professionals and businesses face multiple challenges. It is more important than ever to effectively manage finances and utilize different tax planning strategies.

Advantage of the extended payment deadline for federal taxes due April 15

As a part of coronavirus response, 2020 tax season payment deadline was extended by federal government to July 15, 2020. The change was announced on Tuesday, March 17 by Treasury Secretary Steven Mnuchin. On March 20, Mnuchin announced the filing deadline has also been extended to July 15.

Taxpayers and small businesses that traditionally file their returns by April 15 will be able to defer up to $1 million in tax payments to the IRS for 90 days without interest and penalties.

Corporate filers will also be granted a three-month delay of time to pay amounts due on up to $10 million in taxes owed for 2019.

Most states are expected to follow federal government to allow additional time to pay. You should check on your state's position on payment extension.

Refundable payroll tax credit and credit for self-employed individuals

Families First Coronavirus Response Act was passed by the House of Representatives on March 14, 2020, and was sent to the Senate. The Senate is expected to approve the bill with possible changes and even greater stimulus package. The legislation provides paid leave, establishes free testing, protects public health workers, and provides important benefits to children and families.

Two significant provisions—the Emergency Family and Medical Leave Expansion Act (EFMLEA) and the Emergency Paid Sick Leave Act (EPSLA)—will help provide employees with paid sick leave and paid family and medical leave and will help employers to compensate associated costs by providing tax credits.

The FMLEA and the EPSLA only apply to employers with 500 or fewer workers and only to employees who have been employed for more than 30 days. The employers are required to provide two weeks of paid sick leave and up to 12 weeks of paid family and medical leave for employees affected by the coronavirus. The bill provides a refundable tax credit to employers to compensate the cost.

Sick leave is to be paid at the usual pay rate but limited at $511 per day. Family leave is to be paid at two-thirds of the usual pay rate up to $200 per day.

Employers who provide family leave wages will be eligible for the 100% credit against the employer's share of the payroll tax limited to $200 per day, up to an aggregate of $10,000.

Similar credit will be available for self-employed persons. People who are self-employed will be eligible for a tax credit of up to two weeks of sick pay at their average pay and 12 weeks of family leave pay at two-thirds their normal rate. One of the qualifications is to comply with self-isolation or to care for a child due to school closure in connection with coronavirus outbreak. The benefit will be limited at $511 per day for paid sick leave and at $200 for family leave (or the average daily self-employment income the person usually receives if it is less than those amounts).

Department of Labor will have an authority to exempt small businesses with fewer than 50 employees from the requirements of EFMLEA when the imposition of such requirements would jeopardize the viability of the business as a going concern.

There are numerous requirements and limitations for new credits provided in the bill.

The Emergency Family and Medical Leave Expansion Act and the Emergency Paid Sick Leave Act will go into effect no later than 15 days after becoming law and will expire on Dec. 31, 2020.

Utilize tax-loss harvesting to help manage taxes

The impact of uncertainty on stock prices is usually negative. When the stock market goes down, you can utilize tax-loss harvesting technique for your benefit. By selling investments at a loss you can reduce taxes by offsetting capital gains or income. The strategy is called tax-loss harvesting. Tax-loss harvesting can help you to reduce taxes now and in the future. If your capital losses are higher than capital gains, you can use up to $3,000 a year to offset ordinary income for tax purposes. Excess losses could be carried over to future years to offset income of future gains.

Tax-loss harvesting allows you to sell investments that declined in value, replace them with reasonably similar investments, and then offset realized investment gains with those losses. The result is that less of your money goes to taxes and more stays invested and working for you.

Be aware of limitations on loss harvesting—the loss will be disallowed if the same or a substantially identical asset is repurchased within 30 days after the sale. It's called a "wash-sale" rule.

You should avoid tax-loss harvesting if your long-term capital gain rate is 0%. In this scenario it will be beneficial to sell your investments with long-term capital gains and immediately repurchase the same investment—so called “tax gain harvesting”.

Tax-loss harvesting includes certain risks—you should consult with your tax or investment advisor prior to taking the action.

This column does not necessarily reflect the opinion of The Bureau of National Affairs, Inc. or its owners.

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