

## Phase 4 COVID-19 Relief Bill

The U.S. Senate and House of Representatives passed an emergency \$900 billion COVID-19 relief bill which the President signed into law December 27, 2020. Highlights include:

**Additional 2020 recovery rebates for individuals.** The provision provides a refundable tax credit in the amount of \$600 per eligible family member. The credit is \$600 per taxpayer (\$1,200 for Married Filing Jointly), in addition to \$600 per qualifying child. The credit phases out starting at \$75,000 of modified adjusted gross income (\$112,500 for Head of Household and \$150,000 for Married Filing Jointly) at a rate of \$5 per \$100 of additional income.

The provision also provides for Treasury to issue advance payments based on the information on 2019 tax returns. Eligible taxpayers treated as providing returns through the nonfiler portal in the first round of economic impact payments, provided under the CARES Act, will also receive payments. Treasury may issue advance payments for Social Security Old-Age, Survivors, and Disability Insurance beneficiaries, Supplemental Security Income recipients, Railroad Retirement Board beneficiaries, and Veterans Administration beneficiaries who did not file 2019 returns based on information provided by the Social Security Administration, the Railroad Retirement Board, and the Veterans Administration.

In general, taxpayers without an eligible Social Security Number are not eligible for the payment. However, married taxpayers filing jointly where one spouse has a Social Security Number and one spouse does not are eligible for a payment of \$600, in addition to \$600 per child with a Social Security Number.

The provision aligns the eligibility criteria for the new round of economic impact payments and the credit for the economic impact payments provided by the CARES Act. Taxpayers receiving an advance payment that exceeds the amount of their eligible credit will not be required to repay any amount of the payment. If the amount of the credit determined on the taxpayer's 2020 tax return exceeds the amount of the advance payment, taxpayers will receive the difference as a refundable tax credit.

Advance payments are generally not subject to administrative offset for past due federal or state debts. In addition, the payments are protected from bank garnishment or levy by private creditors or debt collectors.

Additionally, the provision instructs Treasury to make payments to the territories that relate to each territory's cost of providing the credits.

**Extension of federal pandemic unemployment compensation.** Restores the federal pandemic unemployment compensation (FPUC) supplement to all state and federal unemployment benefits at \$300 per week, starting after December 26 and ending March 14, 2021.

**Extension of certain deferred payroll taxes.** On August 8, 2020, the President of the United States issued a memorandum to allow employers to defer withholding employees' share of Social Security taxes or the railroad retirement tax equivalent from September 1, 2020 through December 31, 2020, and required employers to increase withholding and pay the deferred amounts ratably from wages and compensation paid between January 1, 2021 and April 30, 2021. Beginning on May 1, 2021, penalties and interest on deferred unpaid tax liability will begin to accrue.

The provision extends the repayment period through December 31, 2021. Penalties and interest on deferred unpaid tax liability will not begin to accrue until January 1, 2022.

**Regulations or guidance clarifying application of educator expense tax deduction.** The provision requires the Secretary of the Treasury to issue guidance or regulations providing that personal protective equipment and other supplies used for the prevention of the spread of COVID-19 are treated as eligible expenses for purposes of the educator expense deduction. Such regulations or guidance shall be retroactive to March 12, 2020.

**Clarification of tax treatment of Paycheck Protection Program loans.** The provision clarifies that gross income does not include any amount that would otherwise arise from the forgiveness of a Paycheck Protection Program (PPP) loan. This provision also clarifies that deductions are allowed for otherwise deductible expenses paid with the proceeds of a PPP loan that is forgiven, and that the tax basis and other attributes of the borrower's assets will not be reduced as a result of the loan forgiveness. The provision is effective as of the date of enactment of the CARES Act. The provision provides similar treatment for Second Draw PPP loans, effective for tax years ending after the date of enactment of the provision.

**Clarification of tax treatment of certain loan forgiveness and other business financial assistance under the coronavirus relief legislation.** The provision clarifies that gross income does not include forgiveness of certain loans, emergency EIDL grants, and certain loan repayment assistance, each as provided by the CARES Act. The provision also clarifies that deductions are allowed for otherwise deductible expenses paid with the amounts not included in income by this section, and that tax basis and other attributes will not be reduced as a result of those amounts being excluded from gross income. The provision is effective for tax years ending after date of enactment of the CARES Act. The provision provides similar treatment for Targeted EIDL advances and Grants for Shut-tered Venue Operators, effective for tax years ending after the date of enactment of the provision.

**Election to waive application of certain modifications to farming losses.** This section allows farmers who elected a two-year net operating loss carryback prior to the CARES Act to elect to retain that two-year carryback rather than claim the five-year carryback provided in the CARES Act. This section also allows farmers who previously waived an election to carry back a net operating loss to revoke the waiver. These clarifications eliminate unnecessary compliance burdens for farmers. The provision applies retroactively as if included in the CARES Act.

**Extension of credits for paid sick and family leave.** The provision extends the refundable payroll tax credits for paid sick and family leave, enacted in the Families First Coronavirus Response Act, through the end of March 2021. It also modifies the tax credits so that they apply as if the corresponding employer mandates were extended through the end of March 2021. This provision is effective as if included in FFCRA.

**Paycheck Protection Program Second Draw Loans.** Creates a second loan from the Paycheck Protection Program, called a “PPP second draw” loan for smaller and harder-hit businesses, with a maximum amount of \$2 million.