The COVID-19 pandemic is disrupting modern society on a global scale, taxing health care systems, upending societal norms, and wreaking havoc on national economies. This public health emergency has led to a sudden shuttering of nonessential businesses, giving rise to widespread unemployment. Governments are attempting to minimize the pandemic’s economic fallout, and are, among other things, looking for ways to inject money into the economy. This newsletter addresses some key U.S. government initiatives that may have an impact on you, as a U.S. individual taxpayer.

**Recovery Rebates**

Recently, the U.S. Congress passed, and the U.S. President signed into law, the *Coronavirus Aid, Relief, and Economic Security Act*, or CARES Act. The 800-plus page stimulus package contains a number of economic provisions affecting employers and employees. The item that has probably received the most press attention is the payment of “Recovery Rebates,” which reportedly will begin this week. The following is a short Q&A explaining who is entitled to the payment, and how it will be administered.

**What is the Recovery Rebate?**

The CARES Act creates a new one-time refundable tax credit for tax year 2020. When a tax credit is “refundable,” it means that if the credit is more than your tax liability, the Internal Revenue Service (IRS) will send you a check for the difference. And, like the tax stimulus payments made in response to the “Great Recession” financial crisis of 2008, most qualifying taxpayers will receive the benefit of the 2020 refund soon, rather than having to wait until they file their 2020 tax return a year from now. The IRS will be issuing advance refund payments (“rebates”) to qualifying taxpayers based on their 2019 (or 2018) tax return. If you don’t receive a payment this year, you may still be entitled to the refundable tax credit on your 2020 tax return.
**How much is the credit?**

The credit (or rebate payment) will be $2,400 for a married couple filing jointly, or $1,200 for a single person, a married person filing separately, or a head of household. The credit is increased by $500 for each of your qualifying dependent children under the age of 17.

**Will all taxpayers receive a credit?**

No. You must be a U.S. citizen or resident to be entitled to the credit. You (and your spouse, if filing jointly) must have a Social Security number.

In addition, the additional $500 for a dependent child will only be paid if the child has a Social Security number. The language of the statute is a little unclear, and could be interpreted to mean that if you have a Social Security number but your child does not, you won’t receive your $1,200 payment. However, the provision enacted in 2008 was similarly worded and at that time the IRS interpreted it to mean that a child’s lack of a Social Security number would not prevent the parent from receiving a payment.

**Is there an income limitation?**

Yes. The credit is reduced by $5 for every $100 by which your adjusted gross income (AGI) exceeds a certain amount. The threshold amount for a married couple filing jointly is $150,000, for a head of household is $112,500, and for single taxpayers and married people filing separately, the threshold is $75,000.

If you have already filed your 2019 return, eligibility for the payment will be based on your AGI in your 2019 tax return. Otherwise, the payment will be based on your 2018 return. If you have filed neither a 2018 nor 2019 return and your status cannot be determined from Social Security benefit statements, you will not receive a rebate payment in 2020, but will still be entitled to the refundable credit when you file your 2020 tax return.

If you haven’t yet filed a 2018 or 2019 return, but you file them before December 31, 2020, you may be paid a rebate at that time.

**What if my 2020 AGI is higher or lower than in 2019?**

If you don’t receive a rebate payment, you will receive the full amount of the credit you are entitled to (depending on your family size and AGI) with your 2020 return. If you receive a rebate payment for less than the full amount, but your 2020 return indicates that you are entitled to a larger amount, you will receive the difference as a credit on your 2020 return.

On the other hand, if your 2020 return indicates that you are entitled to less than the amount of the rebate payment that you received, you do not have to repay the difference, and the rebate is not taxable.

**How will the rebate be paid?**

If your 2019 return (or 2018 return, if 2019 hasn’t been filed yet) indicates that you are due a refund for that year, you will receive your rebate payment in the same manner that your refund was paid. If you provided direct deposit information on your return, the rebate payment will be deposited to that account. Otherwise, you will be sent a rebate check to your address of record with the IRS. Whether received by check or direct deposit, the rebate is not taxable.

The IRS has indicated that they will process direct deposit payments first, and then will begin processing payments by check. This latter process may take a number of weeks or even months to complete. The IRS has announced that they will be setting up a website for taxpayers to provide their direct deposit information, but has provided no further information to date.
I am an international assignee and am tax equalized. How is this going to work for me?

The specifics will vary depending on your employer’s tax equalization policy, but in general, if you would be entitled to a credit based on your 2020 hypothetical adjusted gross income, you will be allowed the credit in your settlement. If you don’t receive a rebate payment but would have been entitled to one if you had not been on assignment, this may be taken into account.

Tax Return and Payment Deadlines Postponed

The IRS has announced that it will postpone until July 15, 2020 the deadline for tax returns and payments of tax due between April 1 and July 14, 2020. This includes most individual tax returns. If an amount is due with your return, penalties and interest will not be applicable if the amount is paid by July 15. Estimated tax payments for the first and second quarters of 2020 that would otherwise be due on April 15 and June 15 are also postponed until July 15.

This postponement also applies to 2019 Individual Retirement Account (IRA) contributions that would otherwise be due April 15, 2020.

As in past years, extensions of time to file (but not to pay) will be available until October 15, and in some cases later. The date for making extension requests in most cases has been postponed until July 15, 2020. If KPMG is your tax service provider, we will file for an extension on your behalf, if one is necessary. Due to the current situation, IRS offices are closed, and most personnel are working remotely, which has slowed down processing times. For that reason, we strongly encourage you to submit your tax return data to us as quickly as possible.

Other Individual Tax Provisions of the CARES Act

The CARES Act is largely aimed at employers, and includes numerous provisions designed to ease cash flow concerns so as to minimize the impact on the labor market, and to ease burdens on the U.S. health care system. However, a few tax provisions of the law, described below, may have a direct impact on you.

Retirement funds

Early withdrawals from retirement savings plans such as 401(k) plans are generally subject to a 10-percent “penalty tax” in addition to the regular income tax that would be due on the distribution. The CARES Act provides that a taxpayer who takes “coronavirus-related” early distributions of up to $100,000 in 2020 will not be subject to the extra penalty tax. In addition, such a distribution will be included in income over three years, rather than all in the year of the distribution, which should lessen the tax impact of the distribution. Taxpayers can elect out of this treatment and include the entire amount in the year of distribution. Taxpayers who take these early distributions can elect to re-contribute these amounts within 3 years to any qualified plan to which a rollover could be made. If the amounts are recontributed to the plan, they will no longer be considered taxable income (which may necessitate filing an amended tax return).

In addition, taxpayers who are over a certain age are generally required to take annual distributions of some specified amount from their qualified retirement savings plans. The minimum distribution requirements are waived for the 2020 calendar year.

Charitable contributions

For taxpayers who do not itemize their deductions, an “above the line” deduction of up to $300 is allowed for charitable contributions made in cash during 2020.

For those who do claim itemized deductions, the deduction for cash charitable contributions is generally limited to 60 percent of adjusted gross income. This limitation is waived for the 2020 tax year.

Student loans

For tax year 2020, the definition of employer education assistance programs that are tax-free is broadened to include student loan payments made by an employer on behalf of an employee. Thus, employers can provide tax-free student loan repayments to employees of up to $5,250 during the period March 27, 2020 through December 31, 2020.
Deferral of payroll taxes

The CARES Act permits employers and self-employed individuals to defer payment of the 6.2 percent employer portion of social security tax. One half of the amount for 2020 is due by December 31, 2021 and the balance by December 31, 2022. There is no deferral of the employee portion of social security tax.

Conclusion

The COVID-19 situation is quickly evolving and we expect more developments in the weeks to come. We will continue to track legislation and IRS guidance that may affect you and your employer, and will issue communications as appropriate. In the meantime, please don’t hesitate to reach out to your KPMG contact if you have questions or concerns regarding how COVID-19 related policies may affect you.
The above information is not intended to be “written advice concerning one or more Federal tax matters” subject to the requirements of section 10.37(a)(2) of Treasury Department Circular 230. The information contained herein is of a general nature and based on authorities that are subject to change. Applicability of the information to specific situations should be determined through consultation with your tax adviser.

To learn more about KPMG’s Global Mobility Services practice, visit us at: www.kpmg.com/GMS

Some or all of the services described herein may not be permissible for KPMG audit clients and their affiliates or related entities.