Increasing Cash Reserves

Alert: Although much of the focus has been on the effect of the COVID-19 crisis on families and small businesses, many provisions of the Coronavirus Aid, Relief, and Economic Security (CARES) Act are directed towards large corporate taxpayers. A combination of these provisions and age-old tax strategy could result in significantly increased cash flow, something desperately needed as the crisis quickly depletes corporate reserves.

Quick Federal Tax Refund

Has your company overpaid its estimated income taxes for 2019? If so, file Form 4466, Corporation Application for Quick Refund of Overpayment of Estimated Tax, before April 15, 2020 (for calendar year taxpayers) to gain access to this cash now. Keep in mind that Notice 2020-18 (which extended federal tax returns and payments due April 15th to July 15th) ***DOES NOT*** apply to Form 4466.

State Tax Refunds

With losses expected for 2020 and the likely waiver of underpayment penalties, we recommend you consider ceasing estimated tax payments and filing 2019 state returns on an accelerated basis, refunding all overpayments. In the vast majority of states, returns can be filed without the need for a completed federal return. Amended returns can then be prepared once the federal return is completed.

Carryback of NOLs

The CARES Act now allows taxpayers to carry back NOLs arising in taxable years beginning after December 31, 2017 and before January 1, 2021 to the five taxable years preceding the year of the loss. The hope/expectation is that losses that have been incurred in 21% tax years will be carried back to 35% tax years. The CARES act also suspends the 80% limitation, allowing taxpayers to fully offset regular taxable income for all tax years beginning before January 1, 2021.

Other Beneficial Provisions in the CARES Act

- An increase in the Sec. 163(j) limitation from 30% to 50% of adjusted taxable income for 2019 and 2020.
- Amendments to the bonus depreciation rules for Qualified Improvement Property that could lead to additional refunds.
- Accelerated refunds of any remaining AMT credits.
- An increase in the charitable contribution deduction limitation from 10% to 24% of taxable income.

Warning: There are a lot of trips and traps with the interplay of NOLs and other federal provisions that existed both before and after 2017 tax reform, so careful modeling is critical to maximizing your return.

Remember: The CARES Act was signed on March 27th meaning this is a Q1 “event” and the potentially significant tax accounting effect of these changes must be addressed now!

Contact: Beth O'Toole at eotoole@gagnontax.com to learn more about how we can be of assistance.