Six tax breaks to consider before they expire at the end of 2020

By TRUCKS, PARTS, SERVICE ™ Staff
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By Don McLoud, senior editor, Equipment World

Much attention has been paid to the forgivable paycheck protection loans in last spring’s COVID-19-relief package, but the CARES Act also includes a slew of tax breaks that could significantly benefit small businesses like dealers and aftermarket businesses on their 2020 taxes. “It’s something that we’re looking at with each client at the end of the year this year to see what of these changes can help our clients,” says Warren Hannagin, construction services leader for accounting firm Marcum LLP. Speaking during a webinar December 1 sponsored by Marcum, Hannagin expected many of his clients to see a boost from the tax benefits.

But contractors need to start considering them soon because they are set to expire Dec. 31, 2020. It’s possible that future federal COVID relief could extend them into 2021. That will be up to Congress and the president to hash out, and there is still much uncertainty as to what and when, if any, compromise can be reached.

Here’s a rundown of six new temporary tax benefits in the CARES Act contractors and other businesses can take advantage for 2020:

**Carryback**
For tax years 2018, 2019 and 2020, net operating losses can be carried back over the previous five years to claim a refund, under the CARES Act. Hannigan called this “a big help, especially those years where you may have paid at a much higher tax rate. Now you’re able to carry that back and actually put some cash in your pocket.” For example, if a company had a tax loss in 2020 and a gain in 2015, it could deduct the 2020 loss from the 2015 taxable income for a refund. Another factor, tax rates were lowered to 21 percent in 2017. So the carryback in many cases will be when business tax rates were higher, 35 percent versus today’s 21 percent.

The act also allows a two-year carryback on net operating losses in fiscal years that began before Jan. 1, 2018, and ended after Dec. 31, 2017.

**Higher interest deduction**
The CARES Act raises the limit on business interest on adjusted taxable income from 30 percent to 50 percent for 2020 and retroactively to 2019.
Deferred Social Security withholding tax
The CARES Act allows businesses to defer paying the employer withholding tax on wages between March 27 and Dec. 31. Half of the withholding can be deferred to Dec. 31, 2021, and the other half to Dec. 31, 2022.

Employee retention credit
This tax credit in the CARES Act is designed to encourage employers whose business were impacted by the pandemic to keep employees on the payroll. It allows a refundable tax credit for 50 percent of qualified wages an employer pays to employees between March 12 and Dec. 31. “For each employee, wages (including certain health plan costs) up to $10,000 can be counted to determine the amount of the 50 percent credit,” according to the Internal Revenue Service (IRS). To qualify, employers must meet one of the following criteria: full or partial suspension of operations in any quarter during the pandemic because of government orders or a “significant decline in gross receipts.”
    “Significant decline” is defined by the IRS as gross receipts of less than 50 percent in a 2020 quarter than gross receipts in the same quarter in 2019.
Qualified wages are those paid to employees when they could not work because of the shutdown or the drop in gross receipts.
Companies that receive a Paycheck Protection Program loan, however, cannot claim this tax credit.

Charitable deduction increase
The deduction for charitable contributions by C corporations has been increased from 10 percent to 25 percent of taxable income. The donation must be made in 2020 to qualify and must be in cash. Also, qualified contributions over the 25 percent threshold can be carried over to the next tax year.

Student loan repayment credit
Between March 27 and Dec. 31, employers can make tax-free payments of up to $5,250 toward their employees’ student loans. Those payments are excluded from the employees’ federal taxable income and are not subject to the employer’s federal payroll taxes. This is the first time this student-loan-repayment credit has been offered.