

COVID-19 Coronavirus Business Impact Broadcast Series

Key COVID-19 Tax Considerations for PE Professionals

APRIL 09, 2020

On April 9, 2020, Dechert's Tax group presented "Key COVID-19 Tax Considerations for PE Professionals," an episode of the firm's COVID-19 Coronavirus Business Impact Broadcast Series. The episode was hosted by Joshua Milgrim (moderator), a tax partner in the firm's New York office; Edward Lemanowicz, a tax partner in the firm's Philadelphia office; and Steven Clemens, a tax partner in the firm's New York office.

The presenters gave a high-level overview of important tax changes stemming from the Coronavirus Aid, Relief and Economic Security Act ("CARES Act") and other recent important tax changes, with particular emphasis on their implications for private equity owned portfolio companies.



HIGHLIGHTS FROM THE EPISODE

Payroll Tax Relief

The CARES Act provides two important payroll tax relief measures for employers. The statute defers the remaining 2020 federal payroll tax payments for employers until 2021 and 2022 and provides a refundable payroll tax credit for eligible employers equal to 50% of qualified wages paid from March 13, 2020 through December 31, 2020 (subject to a US\$5,000 per employee cap).

Temporary Relaxation of Net Operating Loss Limitations

The CARES Act also temporarily rolls back some restrictions on net operating losses ("NOLs") introduced by the 2017 Tax Cuts and Jobs Act (which only allowed carryforward of NOLs and limited NOL usage to 80% of taxable income). NOLs generated in tax years 2018, 2019 and 2020 can now also be carried back up to five years from the applicable tax year. Further, NOLs can be used to fully offset taxable income for tax years 2018, 2019 and 2020.

Increased Ability for Business Interest Expense Deductions

The CARES Act also temporarily expands taxpayers' capability to utilize business interest expense deductions. Following the 2017 Tax Cuts and Jobs Act, business interest expense deductions were generally limited to 30% of a taxpayer's adjusted taxable income. The CARES Act increases that threshold to 50% and provides taxpayers with the flexibility to use 2019 income to calculate the 2020 limitation.

Deferral of Tax Filings and Tax Payments

The Department of the Treasury granted extensions for federal income tax payments and tax return filings (including estimated tax payments) normally due April 15, 2020. Taxpayers now have until July 15, 2020 to make these tax payments and filings without any additional penalties or interest. Many states have similarly extended their income tax payment and tax return filing due dates.