NOTES

Exemption from 20% withholding rules. The mandatory 20% federal withholding rules for eligible rollover distributions from employer plans do not apply to qualified disaster distributions.

Recontributions of withdrawals for home purchases. A taxpayer who receives a qualified distribution may recontribute the amount back into an eligible retirement plan tax-free if it is recontributed during the period beginning on the first day of the incident period of the qualified disaster and ending on June 17, 2020. A qualified distribution is:

- A hardship distribution from a 401(k) or 403(b) plan, or an IRA distribution that qualifies for the first-time homebuyer rule,
- Which was to be used to purchase or construct a principal residence in a qualified disaster area, but which was not so used on account of the qualified disaster, and
- Which was received during the period beginning on the date which is 180 days before the first day of the incident period and ending on the date which is 30 days after the last day of such incident period.

Loans from qualified plans. In general, taxpayers are allowed to take loans from their qualified retirement plans if the proceeds are used to purchase a main home, or repaid within five years. The maximum amount of the loan cannot exceed to the lesser of:

- $50,000, or
- 50% of the present value (but not less than $10,000) of the taxpayer's vested benefit under the plan.

In the case of any loan made to a qualified individual during the period beginning on December 20, 2019 and ending on June 17, 2020:

- The $50,000 amount above is increased to $100,000,
- The 50% of the vested benefit limit is increased to 100% of the vested benefit, and
- If the due date for any repayment period for any outstanding loans occurs during the period beginning on the first day of the incident period of such qualified disaster and ending on the date which is 180 days after the last day of such incident period, such due date shall be delayed by the later of 1 year, or June 17, 2020.

A qualified individual for purposes of the loan provisions means any individual whose principal place of abode is located in the qualified disaster area who has sustained an economic loss by reason of such qualified disaster.

Employee Retention Credit

Employers are eligible for an employee retention credit equal to 40% of the qualified wages with respect to each eligible employee of the employer during the year. The credit is limited to $6,000 per employee, reduced by the amount of qualified wages taken into account for any prior tax year.

Employers are eligible for an employee retention credit equal to 40% of the qualified wages with respect to each eligible employee of the employer during the year.

Eligible employer. An eligible employer is any employer which conducted an active trade or business in a qualified disaster zone at any time during the incident period of the qualified disaster which became inoperable as a result of damage sustained by the disaster at any time during the period beginning on the first day of the incident period and ending on December 20, 2019.

NOTES

Eligible employee. An eligible employee is an employee of an eligible employer whose principal place of employment determined immediately before the qualified disaster was in the qualified disaster zone.

Eligible wages. Eligible wages are those wages paid after the date the trade or business first became inoperable at the principal place of employment of the employee, and before the earlier of:

- The date on which such trade or business has resumed significant operations at such principal place of employment, or
- The date which is 150 days after the last day of the incident period of the qualified disaster.

Eligible wages include wages paid without regard to whether the employee performs no services, performs services at a different place of employment than such principal place of employment, or performs services at such principal place of employment before significant operations have resumed.

Note: An employee cannot be treated as an eligible employee for purposes of the Employee Retention Credit and the Work Opportunity Credit.

Qualified Charitable Contributions

The AGI limitations that generally apply to making deductible charitable contributions and the carryover of charitable contribution AGI limitation rules do not apply to qualified contributions.

Special disaster relief provisions also apply to qualified contributions for disaster relief. The AGI limitations that generally apply to making deductible charitable contributions and the carryover of charitable contribution AGI limitation rules do not apply to qualified contributions.

A qualified contribution is any charitable contribution under IRC section 170(c) if such contribution:

- Is paid during the period beginning on January 1, 2018, and ending on February 18, 2020 in cash to a charitable organization, and
- Is made for relief efforts in one or more qualified disaster areas.

The taxpayer must obtain a contemporaneous written acknowledgement that such contribution will be used for relief efforts of the qualified disaster. The taxpayer must elect to treat the contribution as a qualified contribution for the disaster relief provisions to apply.

Donations to private foundations and donor advised funds do not qualify as qualified contributions.

Qualified Disaster-Related Personal Casualty Loss

A net disaster loss means the excess of qualified disaster-related personal casualty losses over personal casualty gains. Qualified disaster-related personal casualty losses are losses which arise in a qualified disaster area on or after the first day of the incident period which are attributable to such qualified disaster.

Under the new law, the following rules apply to net disaster losses:

- Net disaster losses are not subject to the 10% of AGI limitation,
- Net disaster losses are deductible to the extent they exceed $500 per casualty, and
- Net disaster losses may be added to the standard deduction if the taxpayer does not itemize deductions.

Earned Income Special Rule

NOTES

If the earned income of a qualified individual for the applicable tax year is less than the earned income for the preceding tax year, the qualified individual may elect to use the earned income for the preceding tax year as the earned income for the applicable tax year for purposes calculating the refundable portion of the Child Tax Credit and the Earned Income Credit.

Qualified individual. A qualified individual is any individual whose principal place of abode at any time during the incident period of a qualified disaster was located in the qualified disaster zone, or located in the qualified disaster area (but outside the qualified disaster zone) and such individual was displaced from his or her principal place of abode by reason of the qualified disaster.

Applicable tax year. The applicable tax year of the qualified individual located in a qualified disaster zone means any tax year which includes any portion of the incident period of the qualified disaster. The applicable tax year of the qualified individual located in a qualified disaster area (but outside the qualified disaster zone) means any tax year which includes the year the individual was displaced from his or her principal place of abode by reason of the qualified disaster.

This provision does not affect the determination of gross income of the qualified individual for the applicable tax year.

This provision does not affect the determination of gross income of the qualified individual for the applicable tax year.

Learning Objective 1-E Self-Quiz

For answer, see *Chapter 1 Self-Quiz Answers,* page 26.

Test your knowledge and comprehension of information presented in Learning Objective 1-E.

Learning Objective 1-E. Which one of the following types of charitable contributions is not limited by AGI for taking a deduction?

a) Noncash contribution of towels for disaster relief.

b) Providing volunteer hours for those involved in a disaster.

c) Cash contributions to the American Red Cross.

d) Cash contributions to a local church's operating fund.