

## Tax Notes

# Quick Refund of Corporation Overpayment of Estimated Tax – Action Required by April 15

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In response to opportunities presented by the recently enacted CARES Act, businesses conducted in C Corporation form should immediately check whether they qualify for a “quick refund” of overpaid federal corporate estimated income tax applied to the 2019 tax year. Even though most April 15 tax deadlines have been extended to July 15, **the deadline for this opportunity remains April 15 for calendar year corporations.**

### Eligibility

Generally, any corporation that overpaid its federal estimated tax for a tax year may apply for a quick refund if the overpayment is (1) at least 10% of 2019 expected tax liability **and** (2) at least \$500. The overpayment is the excess of the estimated income tax the corporation paid during the tax year over the final income tax liability expected for the tax year, at the time an application is filed.

### Potential Taxable Income Reduction Opportunities

The CARES Act provides some opportunities to reduce taxable income (and thus potentially increase a refund amount) that were not previously available.

- **Net Operating Losses** – The Act allows a 2018 NOL to be carried forward and **fully offset** taxable income, reducing 2019 expected tax liability. (Prior to the CARES Act, an NOL from 2018 would have been limited to offsetting 80% of 2019 taxable income.)
- **Bonus Depreciation** – The CARES Act corrected the error in the Tax Cuts and Jobs Act (TCJA) that prevented qualified improvement property from being eligible for bonus depreciation, retroactive to the beginning of 2018. Businesses eligible for increased depreciation in 2018 could amend their return, and the increased depreciation could generate a loss in 2018 that can be carried forward to 2019. If the business is eligible for increased depreciation in 2019, that amount can be reflected in adjusting expected tax liability downward.
- **Interest Expense** – The interest expense deduction limitation is now 50% of adjusted taxable income for the years 2019 and 2020 (not 2018), up from 30% previously. If a business expected to be limited in their interest deduction because of the 30% cap, this could also decrease their expected tax liability.

### Procedure

In order to take advantage of this relief, the corporation must file [Form 4466 \(Corporation Application for Quick Refund of Overpayment of Estimated Tax\)](#). For calendar year-end taxpayers, the form must be filed before April 15, 2020, and it **needs to be submitted via mail**. The IRS will process Form 4466 within 45

days from the date it is filed. Thus, businesses can collect a quick refund before finalizing their 2019 federal tax return, which is now due on July 15, 2020.

## PKFOD Observations

The availability of a quick refund could arise in a few situations.

1. The taxpayer overpaid 2019 estimated tax based on the tax law that existed during 2019 and the CARES Act **does not** change 2019 projected taxable income. The taxpayer simply overpaid.
2. The taxpayer overpaid 2019 estimated tax based on the tax law that existed during 2019 and the CARES Act **does** change 2019 projected taxable income. For example, unexpected interest expense and bonus depreciation are now available and can be deducted under the CARES Act.
3. The taxpayer paid 2019 estimated tax based on the tax law that existed during 2019 and may or may not benefit from the CARES Act for 2019, but the CARES ACT does change 2018 taxable income as filed. If such taxpayer files an amended 2018 tax return and creates a NOL, that NOL could be carried forward to reduce projected 2019 taxable income and create a quick refund possibility.

**Example:** A taxpayer that had 2018 taxable income of \$100,000 without bonus depreciation on qualified improvement property and, as a result of the CARES Act, can now amend the 2018 tax return and take \$500,000 of bonus depreciation. All else being equal, an NOL of \$400,000 would be available to carry back or carry forward. If a carryforward is elected, the newly created NOL could reduce projected 2019 taxable income. In such case, a quick refund claim should be filed.

If this fact pattern applies, immediate action is required. An amended 2018 tax return needs to be filed before the NOL would be available. Time is of the essence.

## Contact Us

The tax team at PKF O'Connor Davies is available to assist you with determining eligibility for a refund. For more information or if you require assistance, please contact your PKFOD tax advisor or any of the following:

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