



Dear Valued Clients and Friends:

Let me start by saying that I hope you and your family are staying safe and healthy because that really is what is important in these uncertain times. I know we're all feeling anxious with all that is going on and I hope you are able to take some time to get outside and enjoy the sunshine, or snow, depending on the day.

Here at Kelley & Chulick we are keeping ourselves busy staying updated on the daily changes regarding taxes and financial relief efforts. Here is what we know as of today, March 25th.

We'll try to keep you updated regarding additional developments as they take place.

Filing and payment deadlines deferred. After briefly offering more limited relief, the IRS almost immediately pivoted to a policy that provides the following to all taxpayers—meaning all individuals, trusts, estates, partnerships, associations, companies or corporations regardless of whether or how much they are affected by COVID-19:

1. For a taxpayer with a Federal income tax return or a Federal income tax payment due on April 15, 2020, the due date for filing and paying is automatically postponed to July 15, 2020, regardless of the size of the payment owed.
2. The taxpayer doesn't have to file Form 4868 (automatic extensions for individuals) or Form 7004 (certain other automatic extensions) to get the extension.
3. The relief is for (A) Federal income tax payments (including tax payments on self-employment income) and Federal income tax returns due on April 15, 2020 for the person's 2019 tax year, and (B) Federal estimated income tax payments (including tax payments on self-employment income) due on April 15, 2020 for the person's 2020 tax year.
4. No extension is provided for the payment or deposit of any other type of Federal tax (e.g. estate or gift taxes) or the filing of any Federal information return.
5. As a result of the return filing and tax payment postponement from April 15, 2020, to July 15, 2020, that period is disregarded in the calculation of any interest, penalty, or addition to tax for failure to file the postponed income tax returns or pay the postponed income taxes. Interest, penalties and additions to tax will begin to accrue again on July 16, 2020.

Tax credits and a tax exemption to lessen burden of COVID-19 business mandates. On March 18, President Trump signed into law the Families First Coronavirus Response Act (the Act, PL 116-127), which eased the compliance burden on businesses. The Act includes the four tax credits and one tax exemption discussed below.



1. *Payroll tax credit for required paid sick leave (the payroll sick leave credit).* The Emergency Paid Sick Leave Act (EPSLA) division of the Act generally requires private employers with fewer than 500 employees to provide 80 hours of paid sick time to employees who are unable to work for virus-related reasons (with an administrative exemption for less-than-50-employee businesses that the leave mandate puts in jeopardy). The pay is up to \$511 per day with a \$5,110 overall limit for an employee directly affected by the virus and up to \$200 per day with a \$2,000 overall limit for an employee that is a caregiver.

The tax credit corresponding with the EPSLA mandate is a credit against the employer's 6.2% portion of the Social Security (OASDI) payroll tax. The credit amount generally tracks the \$511/\$5,110 and \$200/\$2,000 per-employee limits described above. The credit applies to wages paid in a period (1) beginning on a date determined by IRS that is no later than April 1, 2020 and (2) ending on December 31, 2020.

2. *Income tax sick leave credit for the self-employed (self-employed sick leave credit).* The Act provides a refundable income tax credit (including against the taxes on self-employment income and net investment income) for sick leave to a self-employed person by treating the self-employed person both as an employer and an employee for credit purposes. Thus, with some limits, the self-employed person is eligible for a sick leave credit to the extent that an employer would earn the payroll sick leave credit if the self-employed person were an employee.

Accordingly, the self-employed person can receive an income tax credit with a maximum value of \$5,110 or \$2,000 per the payroll sick leave credit. However, those amounts are decreased to the extent that the self-employed person has insufficient self-employment income determined under a formula or to the extent that the self-employed person has received paid sick leave from an employer under the Act. The credit applies to a period (1) beginning on a date determined by the IRS that is no later than April 1, 2020 and (2) ending on December 31, 2020.

3. *Payroll tax credit for required paid family leave (the payroll family leave credit).* The Emergency Family and Medical Leave Expansion Act (EFMLEA) division of the Act requires employers with fewer than 500 employees to provide both paid and unpaid leave (with an administrative exemption for less-than-50-employee businesses that the leave mandate puts in jeopardy). The leave generally is available when an employee must take off to care for the employee's child under age 18 because of a COVID-19 emergency declared by a federal, state, or local authority that either (1) closes a school or childcare place or (2) makes a childcare provider unavailable. Generally, the first 10 days of leave can be unpaid and then paid leave is required, pegged to the employee's pay rate and pay hours. However, the paid leave can't exceed \$200 per day and \$10,000 in the aggregate per employee.

The tax credit corresponding with the EFMLEA mandate is a credit against the employer's 6.2% portion of the Social Security (OASDI) payroll tax. The credit generally tracks the \$200/\$10,000 per employee limits described above. The other important rules for the credit, including its effective period, are the same as those described above for the payroll sick leave credit.



4. *Income tax family leave credit for the self-employed (self-employed family leave credit).* The Act provides to the self-employed a refundable income tax credit (including against the taxes on self-employment income and net investment income) for family leave similar to the self-employed sick leave credit discussed above. Thus, a self-employed person is treated as both an employer and an employee for purposes of the credit and is eligible for the credit to the extent that an employer would earn the payroll family leave credit if the self-employed person were an employee.

Accordingly, the self-employed person can receive an income tax credit with a maximum value of \$10,000 as per the payroll family leave credit. However, under rules similar to those for the self-employed sick leave credit, that amount is decreased to the extent that the self-employed person has insufficient self-employment income determined under a formula or to the extent that the self-employed person has received paid family leave from an employer under the Act. The credit applies to a period (1) beginning on a date determined by IRS that is no later than April 1, 2020 and (2) ending on December 31, 2020.

5. *Exemption for employer's portion of any Social Security (OASDI) payroll tax arising from required payments.* Wages paid as required sick leave payments because of EPSLA or as required family leave payments under EFMLEA aren't considered wages for purposes of the employer's 6.2% portion of the Social Security (OASDI) payroll tax.

IRS information site. Ongoing information on the IRS and tax legislation response to COVID- 19 can be found [here](#).

We are happy to answer questions you may have on the above summary but please keep in mind that this is a moving target and there are many unknowns. We will be doing our best to keep you updated with relevant information as details become available.

If you have already dropped your documents off to us, we are attempting to get them done by April 15th. These are unprecedented times and very unpredictable, so please be patient with us.

If you haven't dropped your documents off yet, don't worry about it, you have until July 15th if you need it. Most states have also extended their deadlines to July 15th with few exceptions. Again, we will need some flexibility with the new July 15th deadline and if you decide to wait, we may have to extend to October 15th. But know we are here for you to discuss, strategize and encourage whenever you need it.

Samantha Kelley, CPA