

Tax Alert

COVID-19 Tax Updates

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We have been monitoring the daily changes occurring since the US Treasury announced that the April 15th federal income tax filing deadlines will be extended until July 15th.

The federal government has been working on various relief measures to help individuals and small businesses cope with the situation, including tax relief provisions. Here are the tax changes that have been finalized so far.

Guidance on Federal Income Tax Deadline Deferrals

On March 20, U.S. Treasury Secretary Steven Mnuchin announced on Twitter that the April 15 federal income tax *filing* deadlines will be extended until July 15. His tweet says, "All taxpayers and businesses will have this additional time to file and make payments without interest or penalties." It's unclear at this point whether the extension will apply to the tax return filing deadlines for federal payroll taxes (Social Security and Medicare taxes) owed by employers or for federal estate and gift taxes.

In addition, on March 21, the IRS issued [Notice 2020-18](#), which clarifies that individual taxpayers and corporations can defer until July 15 federal income tax payments that would otherwise be due on April 15. (Normally, when you file an extension, you must still make a good-faith estimate of your tax liability and, by the normal filing deadline, pay the full amount estimated to be due. This relief measure is an exception to the general rule.)



Specifics under Notice 2020-18 are as follows:

For individuals. Individual taxpayers can defer payment of federal income tax (including any self-employment tax) owed for the 2019 tax year from the normal April 15 deadline until July 15. They can also defer their initial quarterly estimated federal income tax payments for the 2020 tax year (including any self-employment tax) from the normal April 15 deadline until July 15.

Individuals who have non-salary income – such as self-employed people, investors and rental property owners – must normally make quarterly estimated tax payments to avoid an IRS interest charge penalty.

Individuals can defer their tax payments until July 15, with no interest or penalties, "regardless of the amount owed." (Earlier IRS guidance imposed a \$1 million limit, but that limit was eliminated by Notice 2020-18.)

For corporations. Corporations that use the calendar year for tax purposes can defer until July 15 any amount of federal income tax payments that would otherwise be due on April 15 with no interest or penalties. This relief covers the amount owed for the 2019 tax year and the amount due for the first quarterly estimated tax payment for the 2020 tax year. Both of those amounts would otherwise be due on April 15. (Earlier IRS guidance imposed a \$10 million limit, but that limit was eliminated by Notice 2020-18.)

For trusts and estates. Trusts and estates pay federal income taxes, too. Federal income tax payments for the 2019 tax year of trusts and estates that use the calendar year for tax purposes are due on April 15. The initial quarterly estimated federal income tax payments for the 2020 tax year of trusts and estates that use the calendar year for tax purposes are also due on April 15.

Notice 2020-18 clarifies that trusts and estates can defer any amount of the aforementioned tax payments from April 15 to July 15 with no interest or penalties.

Important: Notice 2020-18 offers no relief for paying federal payroll taxes (Social Security and Medicare taxes) owed by employers – or federal estate and gift taxes. But additional relief measures may be under construction in Congress. In regards to State taxes, to give taxpayers a deadline consistent with that of the Internal Revenue Service (IRS) without the federal dollar limitations, FTB is following the federal relief described in [Notice 2020-17](#). Since California conforms to the underlying code sections that grant tax postponements for emergencies, FTB is extending the relief to all California taxpayers. Taxpayers do not need to claim any special treatment or call FTB to qualify for this relief.

Tax Provisions in the Families First Coronavirus Response Act

On March 18, President Trump signed into law a COVID-19 relief bill. It's called the Families First Coronavirus Response Act. The new law mandates paid leave benefits for small business employees affected by the COVID-19 emergency and establishes related tax credits and Social Security and Medicare (FICA) tax relief for their employers.

Tax credits for emergency leave payments to employees. The new law grants tax credits to small employers to cover payments to eligible employees while they take time off under the mandatory emergency COVID-19 paid sick leave and paid family leave provisions. These provisions apply to employers with less than 500 employees.

Emergency paid sick leave under the new law is limited to \$511 per day for up to 10 days (up to \$5,110 in total) for an employee who's in COVID-19 quarantine or seeking a COVID-19 diagnosis. An employee can also receive emergency COVID-19 paid sick leave of up to \$200 per day for up to 10 days (up to \$2,000 in total) to care for a child whose school or childcare location has been closed or whose childcare is unavailable due to COVID-19.

In addition, the law gives an employee the right to take up to 12 weeks of job-protected family leave if the employee or a family member is in COVID-19 quarantine or if the school or childcare location of the employee's child is closed due to the outbreak. The employer must pay at least two-thirds of the employee's usual pay, up to a maximum of \$200 per day, subject to an overall maximum of \$10,000 in total family leave payments.

To help employers cover these now-mandatory emergency leave payments, the law allows a refundable tax credit equal to 100% of qualified sick leave wages and family and medical leave wages paid by the employer.

The credit applies only to eligible leave payments made during the period beginning on a date specified by Treasury Secretary Mnuchin and ending on December 31, 2020. The beginning date will be within 15 days of March 18, 2020.

The new law increases the credit to cover a portion of an employer's qualified health plan expenses that are allocable to emergency sick leave wages and emergency family leave wages.

The credit is first used to offset the Social Security tax component of the employer's FICA tax bill. Any excess credit is refundable, meaning the government will issue a check to the employer for the excess.

Important: The credit isn't available to employers that are already receiving the pre-existing credit for paid family and medical leave under Internal Revenue Code Section 45S.

Employer FICA tax relief. Qualified sick leave and family leave payments mandated by the new law are exempt from the 6.2% Social Security tax component of the employer FICA tax on wages. Employers must pay the 1.45% Medicare tax component of the FICA tax on qualified sick leave and family leave payments, but they can claim a credit for that outlay.

Credits for self-employed people. For a self-employed individual who's affected by the COVID-19 emergency, the new law allows a comparable refundable credit against the individual's federal income tax bill. If the credit exceeds the individual's federal income tax bill (including the self-employment tax), the excess will be refunded via a check from the government. The credit equals:

- * 100% of the self-employed person's sick-leave equivalent amount, or
- * 67% of the person's sick-leave equivalent amount for taking care of a sick family member or taking care of the individual's child following the closing of the child's school or childcare location.

The sick-leave equivalent amount equals the lesser of:

- * The individual's average daily self-employment (SE) income, or
- * \$511 per day for up to 10 days (up to \$5,110 in total) to care for the individual or \$200 per day for up to 10 days (up to \$2,000 in total) to care for a sick family member or a child following the closing of the child's school or childcare location.

In addition, a self-employed individual could receive a family leave credit for up to 50 days. The credit amount would equal the number of leave days multiplied by the lesser of:

- * \$200, or
- * The individual's average daily SE income.

The maximum total family leave credit would be \$10,000 (50 days x \$200 per day).

Credits for self-employed individuals are only allowed for days during the period beginning on a date specified by Treasury Secretary Mnuchin and ending on December 31, 2020. The beginning date will be within 15 days of March 18, 2020.

Important: To properly claim the credit, self-employed individuals must maintain whatever documentation the IRS requires in future guidance. Contact your tax professional for details.

Moving Target

This article only covers some of the COVID-19-related tax changes that have already been finalized. Other types of non-tax federal relief have also been made available and many states have announced their own COVID-19 relief. More federal measures and additional guidance are expected soon. Contact your tax professional to discuss financial relief measures that apply in your specific situation.