Coronavirus and Tax Impacts FAQs

This series of frequently asked questions (FAQs) provide answers to questions we are hearing from our members about the various tax-related relief packages pertaining to the coronavirus (COVID-19).

The AICPA continues to advocate for relief on many issues. Check back often as we will update these FAQs as more guidance is released.

This page has been updated April 1, 2020.

Extended Tax Deadlines (Notice 2020-18, Notice 2020-20 and IRS FAQs)

+ What relief has the IRS granted?

Due to the coronavirus, the IRS has extended the April 15 filing and federal income tax payment deadline to July 15, 2020.

On March 20, 2020, the IRS formalized their relief by publishing Notice 2020-18. Notice 2020-18 supersedes Notice 2020-17 which was issued on March 17. Notice 2020-18 provides that those with a filing deadline of April 15 (for a federal income tax return) have an automatic extension to July 15. No extension form (Form 4868 or Form 7004) is necessary. On March 27, 2020, the IRS published Notice 2020-20 providing an extension for filing and payment of Form 709, *United States Gift (and Generation-Skipping Transfer) Tax Return*, until July 15, 2020.

The postponement of payments is available for federal income taxes (including payments of tax on self-employment income) due on April 15 for the 2019 tax year and to estimated income tax payments due on April 15 for the 2020 tax year. There is no limitation on the amount of the payment that may be postponed (which is an update from the superseded Notice 2020-17).

The postponement means that the period from April 15, 2020 through July 15, 2020 will be disregarded by the IRS for purposes of calculating any interest, penalties or additions to tax for failure to file a tax return or pay federal income taxes postponed by the notice.

More guidance can be found on the IRS's FAQs page.

+ What type of entities are included in this relief?

The notice covers the following types of “persons:” individual, trust, estate, partnership, association, company or corporation as provided in Sec. 7701(a)(1).

Based on these notices and confirmed by the IRS’s FAQs, the affected persons are provided relief only for income and gift tax returns originally due April 15 (not for other types of returns, such as information returns).

+ Does this relief affect second quarter estimated tax payments normally due June 15?

Notice 2020-18 does not address second quarter estimated income tax payments. IRS FAQ #16 also confirms this treatment. Absent further relief, this payment is still due June 15.

+ When are contribution deadlines for individual retirement accounts (IRAs), health savings accounts (HSAs) and Archer medical savings accounts (MSAs)?

Based on IRS FAQs, the deadline for making contributions to IRAs, HSAs and MSAs is extended to July 15, 2020.

+ What relief is available to other types of federal taxes and returns?

Notice 2020-18 states that the relief is for federal income tax returns and federal income tax payments. It does not cover other types of returns or payments such as payroll taxes, or other non-income tax payments that are due April 15. Notice 2020-20 is for gift and generation-skipping transfer tax returns and the payment of these taxes.

+ Does the extension relief apply to information returns (e.g., Form 5471 and Form 3520) that are normally attached to an income tax return originally due April 15?

Notice 2020-18 relief excludes information returns. Therefore, an extension request should be made to extend information returns.

+ If a client filed their 2019 income tax return and scheduled taxes to be paid by April 15, 2020, can this payment be cancelled and rescheduled?

For those who have already filed their 2019 income tax return and scheduled the balance due to be withdrawn from their bank account by April 15, 2020, they may cancel the scheduled payment by calling the U.S. Treasury Financial Agent at 888.353.4537 at least two business days prior to the scheduled date. Then, go to irs.gov/directpay to reschedule the tax payment to meet the new deadline. For more information, see IRS FAQ #14.

+ What are the states doing with filing and payment deadlines?

States are providing some tax relief for individuals and businesses. Check out the latest developments on state tax filings related to the coronavirus.

Families First Coronavirus Response Act (H.R. 6201, Notice 2020-21 and IRS FAQs)

+ What is the Families First Coronavirus Response Act?

The Families First Coronavirus Response Act, H.R. 6201, that was signed into law on March 18 contains refundable tax credits for employers who provide paid sick leave or family or medical leave for their employees who miss work for various coronavirus-related reasons.

Subject to limitations and exceptions, employers of less than 500 employees are required to provide mandatory sick time and paid family leave but are eligible for payroll tax credits to offset the costs.

+ What guidance has been released related to this legislation?

The U.S. Department of Labor (DOL) has issued a fact sheet for employees, a fact sheet for employers and FAQs related to H.R. 6201. Based on a bulletin issued by the DOL, employers have 30 days (from March 18 through April 17) to comply with the provisions of this legislation as long as reasonable, good faith efforts have been made during that time.

The IRS released Notice 2020-21 and overview information and FAQs.

+When are the provisions effective?

The provisions are effective April 1, 2020 and apply to leave taken between April 1, 2020 and Dec. 31, 2020. Wages paid for leave taken prior to April 1 will not be eligible for the payroll tax credits. See Notice 2020-21 for more information.

+How does an employer receive the benefit of these credits?

The employer tax credits for qualified sick leave wages and qualified family leave wages can be claimed as credits on payroll tax forms (Forms 941, 943, 944 or CT-1) for the qualifying period. Employers requesting an advance of the tax credit should use Form 7200, *Advance Payment of Employer Credits Due to COVID-19*.

+ How does the paid family leave work?

Subject to certain limitations, the bill provides an employer a payroll tax credit that equals 100% of the qualified family leave wages paid by the employer.

It requires employers with fewer than 500 employees to provide public health emergency leave under the Family and Medical Leave Act (FMLA), P.L. 103-3, when an employee is unable to work or telework due to a need for leave to care for a son or daughter under age 18 because the school or place of care has been closed, or the childcare provider is unavailable, due to a public health emergency related to COVID-19.

The paid leave is available for up to 10 weeks.

- The first 10 days of the leave may consist of unpaid leave. However, the employee may choose to use any accrued paid time off.
- The amount paid per day is calculated based on the “two-thirds rule” discussed in H.R. 6201.
- The credit is generally available for up to $200 in wages for each day an employee receives qualified family leave wages. A maximum of $10,000 in wages per employee would be eligible for the credit.
- The paid leave benefit is available to self-employed taxpayers.

Employers with fewer than 50 employees can be exempted from the requirement and healthcare providers and emergency responders can be excluded from this rule.

+ How does the paid sick leave work?

Two weeks of sick leave must be paid when the employee is unable to work or telework for any of the following:

1. The employee is subject to a federal, state or local quarantine or isolation order related to COVID-19.
2. The employee has been advised by a healthcare provider to self-quarantine due to concerns related to COVID-19.
3. The employee is experiencing symptoms of COVID-19 and is seeking a medical diagnosis.
4. The employee is caring for an individual who is subject to an order.
5. The employee is caring for a son or daughter of such employee if the school or place of care of the son or daughter has been closed, or the childcare provider of such son or daughter is unavailable, due to COVID-19 precautions.
6. The employee is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services in consultation with the Secretary of the Treasury and the Secretary of Labor.

There are exceptions for healthcare workers and emergency responders. And, employers with fewer than 50 employees can be exempted from the requirement.

The amount of sick leave is set at:

- The employee’s standard rate of pay (or minimum wage, if greater) for leave taken in situations 1, 2 and 3 discussed above and two-thirds of that amount for leave taken in situations 4, 5 and 6 above.

The maximum amount of paid sick leave is:

- $511 per day ($5,110 in total) for leave paid because of situations 1, 2 and 3 above
- $200 per day ($2,000 in total) for leave paid due to situations 4, 5 and 6 above

The duration of the sick leave is 80 hours for full-time employees and equal to the average hours worked over a two-week period for part-time workers.

+ What is the tax credit applied against?

The credit can be used against the employer’s portion of Social Security (6.2%) and Medicare (1.45%) taxes.

+ Do self-employed taxpayers also qualify for the credit?

Eligible self-employed individuals are eligible for a refundable credit against income tax for qualified family leave and qualified sick leave equivalent amounts.

An eligible self-employed individual is an individual who regularly carries on any trade or business (as defined in Sec. 1402) and would be entitled to receive paid leave under the Emergency Paid Sick Leave Act if the individual were an employee.

Coronavirus Aid, Relief and Economic Security (CARES) Act (H.R. 748, IRS FAQs and IR 2020-61)

+ What is the Coronavirus Aid, Relief and Economic Security (CARES) Act?

This legislation contains $2 trillion of aid designed to help the economy as it suffers from the effects of the coronavirus pandemic. There are many tax provisions in the bill including the following:

- Stimulus payments for individual taxpayers
- Payroll tax credit refunds
- Employee retention credit
- Relief related to retirement plan distributions (including required minimum distributions)
- Temporary changes to charitable contributions
- Payroll tax deferral (including payroll taxes paid by self-employed individuals)
- Temporary repeal of net operating loss limitations (included in the Tax Cuts and Jobs Act)
- Temporary changes to the interest expense deduction limitation (for tax years beginning in 2019 and 2020, Sec. 163(j) is amended to increase the adjusted taxable income percentage from 30% to 50%)
- A technical correction for qualified improvement property under Sec. 168 making it 15-year property and eligible for bonus depreciation (retroactive to Jan. 1, 2018)

For more information on the tax provisions contained in the CARES Act, see the AICPA Tax Section's legislative summary. Also, see IRS FAQs.

+ Who is eligible for the stimulus payment and how much will it be?

All U.S. residents or citizens with adjusted gross income (AGI) under $75,000 for single filers, $112,500 for heads of household and $150,000 for married filing jointly filers, who are not the dependent of another taxpayer and have a work-eligible Social Security number, are eligible for the full $1,200 ($2,400 for married filing jointly) stimulus payment. They are also eligible for an additional $500 per child. A typical family of four is eligible for a $3,400 stimulus rebate.

The amount is reduced by $5 for each $100 that a taxpayer's income exceeds the phase-out threshold. The amount is completely phased out for single filers with income exceeding $99,000, $146,500 for head of household filers with one child and $198,000 for joint filers with no children. For a typical family of four, the amount is completely phased out for those with adjusted gross incomes exceeding $218,000.

These payments will be based on the most recently filed return. Therefore, if the 2019 return hasn't been filed yet, it will be based on the 2018 return. People who typically do not file a tax return will need to file a simple tax return to receive a stimulus payment.

These payments are an advance of a refundable credit to be reconciled on the 2020 tax return. The payment will be deposited into the bank account associated with the taxpayer's most recent tax return. If there is no bank account information with a previously filed tax return, a check will be sent to the address on record with the IRS.

The IRS released information related to these payments with IR 2020-61.

Use the AICPA Tax Section's CARES Act stimulus calculator to help you with this calculation.

+ What are the loan provisions contained in the CARES Act?

There are several loan provisions designed to assist businesses.

- **Payroll Protection Program**: This is a Small Business Association (SBA) loan program designed to provide capital to cover the cost of retaining employees. This program is generally available for businesses with fewer than 500 employees. The loan size is determined based on monthly payroll costs. If the loan proceeds are used during the covered eight-week period to maintain employees and wages, the loan may qualify to be forgiven.
- **Economic Injury Disaster Loans (EIDL)**: These are loans generally available for businesses with fewer than 500 employees. The proceeds can be used more broadly for operating costs. For businesses eligible for an EIDL and that have been in operation since Jan. 31, 2020, the CARES Act allows for an advance of $10,000 (considered an Emergency Economic Injury Grant). Funds should be available within three days of a successful application, and this grant will not have to be repaid.

Other SBA programs are also available. For more guidance, see SBA's Coronavirus Small Business Guidance and Loan Resources and the Small Business Owner's Guide to the CARES Act.

+ What payroll tax credit refunds are available?

Eligible employers are allowed a credit against employment taxes equal to 50% of qualified wages (up to $10,000 in wages) for each employee.

To qualify for this credit, the business must be either completely or partially shut down by government orders or have experienced a significant decline in gross receipts. For employers with more than 100 employees, wages eligible for the credit are wages that the employer pays employees who are not providing services due to the suspension of the business or a drop in gross receipts. For employers with 100 or fewer employees, all wages paid qualify for the credit.

The employee retention tax credit can be claimed on payroll tax forms (Forms 941, 943, 944 or CT-1) for the qualifying period. Employers requesting an advance of the tax credit should use Form 7200, *Advance Payment of Employer Credits Due to COVID-19*.

+ What is the interaction between the loans and the payroll tax credits?

If a business accepts a loan/grant from the Payroll Protection Program or Economic Injury Disaster Loans Program, they are not eligible for the payroll tax credits. Careful consideration and analysis should be made to determine the most beneficial strategy.

People First Initiative (IR-2020-59)

+ What is the People First Initiative?

The IRS has announced various modifications to their procedures related to payment, compliance and enforcement proceedings. The projected start date of the program will be April 1, 2020 and it will initially run through July 15, 2020 with the possibility of extending the program to a later date. For more information, see IR-2020-59.

+ What modifications are being made to the offers-in-compromise (OIC) program?

New OIC applications will be accepted in accordance with normal application procedures. All taxpayers will automatically have until July 15, 2020 to submit any additional information to support a pending application and no pending OIC agreement will be closed before that date without the taxpayer's consent. For existing agreements, taxpayers have the option to suspend any payment due until July 15, 2020, but interest will continue to accrue.

+ What modifications are being made to installment agreements?

New installment agreements will continue to be accepted under current IRS guidelines and pending applications will continue to be processed. For existing installment agreements, all payments due between April 1 and July 15 are suspended. The IRS will not default on any existing agreements during this period, but interest will continue to accrue.

+ What modifications are being made to collection activities?

Liens and levies (including the seizure of personal residences) initiated by field revenue officers or through automatic procedures will be suspended. Field officers will continue to pursue high-income, non-filers and undertake other collection activities as warranted. In addition, during the period of the program, the IRS will not be sending delinquent accounts to private debt collection agencies and will suspend new certifications to the Department of State for any "seriously delinquent" taxpayers who wouldn't be able to receive or renew U.S. passports.

+ What modifications are being made to IRS audit activities and the issuance of notices?

The IRS will generally not start new field, office and correspondence examinations. In-person meetings will be suspended, and examinations will continue remotely, when possible. The IRS encourages taxpayers to respond to any correspondence requesting additional information during this time if possible. The IRS will continue to protect all applicable statutes of limitations including issuing notices of deficiency.

Other Coronavirus Tax-Related Questions

+What effect will the COVID-19 outbreak have on IRS operations?

The IRS is continuing to monitor issues during the outbreak and is focusing on mission-critical operations. More information about operations can be found in this statement from the IRS.

+ For foreign (non-U.S.) individuals, is the substantial presence test met when they are unable to return to their home country due to being ill or because of travel restrictions?

For purposes of the substantial presence test for foreign individuals who are in the U.S. and are ill (including those afflicted by COVID-19), Regs. Sec. 301.7701(b)-3(c)(1) states that an individual will not be considered present in the U.S. on any day that the individual intends to leave and is unable to leave the U.S. because of a medical condition or medical problem that arose while the individual was present in the U.S.

More guidance is needed whether this exception will apply to a foreign individual who is healthy but is unable to leave the U.S. due to travel restrictions.

Related Resources

- AICPA Coronavirus (COVID-19) Tax Resource Center
- IRS Coronavirus Tax Relief Center

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