

## IRS FAQs on FFCRA Tax Credits for Self-employed Individuals

The IRS has issued frequently asked questions (FAQs) about tax credits available under the Families First Coronavirus Response Act (FFCRA), including specific FAQs directed to self-employed individuals. The FFCRA requires employers with fewer than 500 employees to provide 80 hours of paid sick leave and 12 weeks of partially compensated Family and Medical Leave Act (FMLA) leave for specified COVID-19-related purposes.

The law also provides refundable tax credits that reimburse employers the full cost of providing the required paid leave, which are available to self-employed individuals in certain circumstances in which the individual is unable to work.

With respect to self-employed individuals, the FAQs clarify the following issues, among others:

- Who qualifies as a self-employed individual under the FFCRA
- How to calculate the qualified sick leave equivalent amount
- How to calculate average daily self-employed income
- How to claim paid leave credits
- How to fund paid leave amounts before filing a Form 1040

This Compliance Bulletin includes the IRS' FAQs on the FFCRA's tax credits for self-employed individuals

### Action Steps

Self-employed individuals should review the IRS guidance to determine whether they qualify for a tax credit under the FFCRA.

# Frequently Asked Questions for Self-employed Individuals

## Who is an eligible self-employed individual for purposes of the qualified sick leave credit and the qualified family leave credit?

An eligible self-employed individual is defined as an individual who regularly carries on any trade or business within the meaning of section 1402 of the IRS Code, and would be entitled to receive qualified sick leave wages or qualified family leave wages under the FFCRA if the individual were an employee of an eligible employer (other than himself or herself) that is subject to the requirements of the FFCRA.

Eligible self-employed individuals are allowed an income tax credit to offset their federal self-employment tax for any taxable year equal to their “qualified sick leave equivalent amount” or “qualified family leave equivalent amount.”

## How is the “qualified sick leave equivalent amount” for an eligible self-employed individual calculated?

For an eligible self-employed individual who is unable to work or telework because the individual:

1. Is subject to a federal, state or local quarantine or isolation order related to COVID-19;
  2. Has been advised by a health care provider to self-quarantine due to concerns related to COVID-19; or
  3. Is experiencing symptoms of COVID-19 and seeking a medical diagnosis,
- the qualified sick leave equivalent amount is equal to the number of days during the taxable year that the individual cannot perform services in the applicable trade or business for one of the three above reasons, multiplied by the lesser of \$511 or 100% of the “average daily self-employment income” of the individual for the taxable year.

For an eligible self-employed individual who is unable to work or telework because the individual:

1. Is caring for an individual who is subject to a federal, state or local quarantine or isolation order related to COVID-19, or has been advised by a health care provider to self-quarantine due to concerns related to COVID-19;
  2. Is caring for a child if the child’s school or place of care has been closed, or child care provider is unavailable due to COVID-19 precautions; or
  3. 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,
- the qualified sick leave equivalent amount is equal to the number of days during the taxable year that the individual cannot perform services in the applicable trade or business for one of the three above reasons, multiplied by the lesser of \$200 or 67% of the “average daily self-employment income” of the individual for the taxable year.

In either case, the maximum number of days a self-employed individual may take into account in determining the qualified sick leave equivalent amount is ten.

**Note:** The only days that may be taken into account in determining the qualified sick leave equivalent amount are days occurring during the period beginning on April 1, 2020, and ending on Dec. 31, 2020.

## How is the “average daily self-employment income” for an eligible self-employed individual calculated?

Average daily self-employment income is an amount equal to the net earnings from self-employment for the taxable year divided by 260. A taxpayer’s net earnings from self-employment are based on the gross income that he or she derives from the taxpayer’s trade or business, minus ordinary and necessary trade or business expenses.

## Can a self-employed individual receive both qualified sick or family leave wages and qualified sick or family leave equivalent amounts?

Yes, but the qualified sick or family leave equivalent amounts are offset by the qualified sick or family leave wages. That is, if an eligible self-employed individual receives qualified sick leave wages as an employee of an eligible employer (other than himself or herself), that individual’s qualified sick leave equivalent amount must be reduced (but not below zero) to the extent that the sum of the qualified sick leave equivalent amount and the qualified sick leave wages received exceeds:

- 5,110 in the case of any day, any portion of which is paid sick time for when the individual:
  - Is subject to a federal, state or local quarantine or isolation order related to COVID-19;
  - Has been advised by a health care provider to self-quarantine due to concerns related to COVID-19; or
  - Is experiencing symptoms of COVID-19 and seeking a medical diagnosis.
- \$2,000 in the case of any day, any portion of which is paid sick time for when the individual:
  - Is caring for an individual who is subject to a federal, state, or local quarantine or isolation order related to COVID-19, or has been advised by a health care provider to self-quarantine due to concerns related to COVID-19;
  - Is caring for a child if the child’s school or place of care has been closed, or child care provider is unavailable due to COVID-19 precautions; or
  - 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.

**Example:** Assume that an eligible self-employed individual’s qualified sick leave equivalent amount is \$1,500, but the individual also works for an eligible employer and received qualified sick leave wages of \$1,000 to care for the individual’s child while school was closed due to COVID-19. The individual’s qualified sick leave equivalent amount would be reduced by \$500 [i.e.,  $(\$1,500 + \$1,000) - \$2,000$ ], resulting in a credit for the qualified sick leave equivalent of \$1,000 [i.e.,  $\$1,500 - \$500$ ].

If an eligible self-employed individual receives qualified family leave wages, the individual’s qualified family leave equivalent amount must be reduced (but not below zero) to the extent that the sum of the qualified family leave equivalent amount and the qualified family leave wages received exceeds \$10,000.

**Example:** Assume that an eligible self-employed individual's qualified family leave equivalent amount is \$5,000, but the individual also works for an eligible employer and received qualified family leave wages of \$9,000 to care for the individual's child while school was closed due to COVID-19. The individual's qualified family leave equivalent amount would be reduced by \$4,000 [i.e.,  $(\$5,000 + \$9,000) - \$10,000$ ], resulting in a credit for the qualified family leave equivalent of \$1,000 [i.e.,  $\$5,000 - \$4,000$ ].

### **How does a self-employed individual claim the credits for qualified sick leave equivalent amounts or qualified family leave equivalent amounts?**

The refundable credits are claimed on the self-employed individual's Form 1040, U.S. Individual Income Tax Return for the 2020 tax year.

### **How can a self-employed individual fund his or her qualified sick leave equivalent and qualified paid family leave equivalent amounts before filing his or her Form 1040?**

The self-employed individual may fund sick leave and family leave equivalents by taking into account the credit to which the individual is entitled and will claim on Form 1040, U.S. Individual Income Tax Return, in determining required estimated tax payments. This means that a self-employed individual can effectively reduce payments of estimated income taxes that the individual would otherwise be required to make if the individual were not entitled to the credit on Form 1040.

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