Your Guide to The CARES Act & Other COVID-19 Tax Issues
For Individuals & Business Owners

On March 27, 2020 the emergency relief bill, now known as The CARES Act, became law to help bolster the U.S. economy as the country battles the coronavirus. The new law covers a broad cross-section of the economy. Since then, there have been several key updates to the law and the guidance related to it. In addition, in December 2020, the HEALS Act was passed adding a second round of COVID-19 relief to aid both individuals and businesses.

Here are the key highlights and how they relate to taxes for both individuals and businesses. Please note, this guidance is subject to change, so please check with our office for the latest information:

Updates For Individuals

- **Economic Impact Payment Recovery Rebate Credit (Notice 1444).** The Recovery Rebate Credit is a special one-time benefit that most people received last year in the form of an Economic Stimulus Payment. If you did not receive the maximum amount of the Economic Stimulus Payment, or if your circumstances have changed, you may be eligible now.

  In most cases, the IRS will be able to calculate whether a person is eligible and how much of the credit may be due. Taxpayers can choose this option by simply filing a Form 1040, 1040A or 1040EZ and following the “Credit Figured by the IRS” instructions. We can also calculate the Recovery Rebate Credit for you when we prepare your taxes.

- **Unemployment benefits received.** If you received any form of unemployment benefits this year, including those related to Covid-19, these will need to be added to your 2020 total taxable income.

- **Charitable donation deduction.** You can take up to $300 in a cash/check/credit card deduction (not donated goods) in 2020 under coronavirus programs. If applicable please provide the name of organization, amount donated and the date of donation.

- **Coronavirus IRA Hardship Withdrawals.** If you are feeling the cash flow crunch due to the economic slowdown caused by COVID-19, The Coronavirus Aid, Relief, and Economic Security Act (CARES) Act may provide some relief in the form of a waiver of the 10 percent early withdrawal penalty.

  **Who is eligible for a coronavirus hardship IRA withdrawal?** The new rules to take a withdrawal from your retirement account will apply to you, if:
You have been diagnosed with COVID-19 by a CDC approved test.
Your spouse or a dependent has been diagnosed with COVID-19 by a CDC approved test.
You have experienced “adverse financial consequences” due to the pandemic.

For example, you or your spouse:
- Are being quarantined, furloughed, laid off, or you are working less because of the virus or disease.
- Are unable to work due to lack of childcare because of the virus or disease.
- Own or operate a business and you have lost hours or had reduced hours due to the virus or disease.

The distribution period covered for these funds is January 1, 2020, to December 31, 2020.

- In December, 2020, another new COVID-19 law (The HEALS Act) was introduced featuring direct payments to individuals earning less than $75,000 and couples earning less than $150,000; $600 per adult and $600 per child. If the payments are made after December 31, 2020 they will be accounted for on your 2021 tax return.

There are different tax implications to be aware of for an IRA and a 401(k) withdrawal.

Withdrawals from an IRA
Under this provision, you are clear to withdraw up to $100,000 from your IRA with no penalty (usually there is a 10% penalty). However there are several provisions to keep in mind:

- You must be prepared to have the documentation to how you are using the money.
- If you do not use all of the funds, you can return some back to your IRA account to avoid having to pay income tax on funds.
- You can return this cash to your IRA from this early withdrawal whenever you want over the next three years to avoid owing the taxes pro-rata.
- You also have three years to pay the taxes off, which means you can split it up equally between 2020, 2021 and 2022.

There is no clear guidance yet on whether beneficial IRAs that have been inherited from deceased parents are included in this CARES Act provision.
Withdrawals from a 401(k) or 403(b) fund.
To use your 401(k) or 403(b) funds, you must first see if your plan allows for a loan to be taken. Under The CARES Act, getting this type of loan is not guaranteed, it is an optional plan feature, meaning your employer ultimately decides if this type of loan is available. It is considered a “plan event” if the employer allows you to use it and generally, you need to be working at your employer to get a 401(k) loan.

If you do qualify for a 401(k) loan under the CARES Act, these loans are not taxed and you can take out up to 100% of your vested balance up to $100,000 without the usual 10% penalty if you meet the guidelines stated above.

All 401(k) loans must be repaid within five years with interest, or you’ll be hit with taxes. The interest date is set by your plan and is based on the prime rate, which is currently about 3.25%. If you leave your job early (whether you quit or are laid off), the outstanding loan balance is usually due right away.

If you are unsure about the impact of using your IRA or how you can use the NOL provisions, please consult with a financial professional. They can help you ensure that you are applying these relief measures correctly and they may provide some much-needed additional cash flow.

Updates For Business Owners

One of the key provisions of the new HEALS Act is a second round of the Paycheck Protection Program (PPP) loans, On January 9, the Small Business Administration (SBA) released its application for businesses to apply to receive additional PPP funding. There is more than $284 billion allocated for forgivable “PPP2” loans with a reduction in the amount available for each loan from $10 million (in the first round) to $2 million.

Here are some of the key things you need to know if you are considering applying for this round of PPP loans:

- Self-employed and members of partnerships and LLCs (active partners who pay self-employment tax on their income) are eligible.
- You can use 2019 or 2020 payroll numbers to substantiate your loan application. It may be better to use 2019 if higher.
- You can apply for 2.5 times your salary up to 100,000 per person and the owner of a business. This is the same rule as last time.
- The salary amount you can claim for industries with NACIS classification beginning with 72 (Accommodation and Food Services Sector Businesses ) is 3.5 times regular salary.
- Borrowers can set their PPP loan’s covered period to be any length between 8 and 24 weeks to best meet their business needs.
• PPP loans will cover additional expenses, including operations expenditures, property damage costs, supplier costs, and worker protection expenditures, according to the SBA.

• If you have a business that did get PPP funding before and you have eligible expenses you may have another chance to get this funding, but only if you meet these criteria:
  o The business employs no more than 300 employees per physical location;
  o The business has used, or will use the full amount of its first PPP loan; and
  o The business has experienced at least a 25% reduction in quarterly revenues in at least one quarter of 2020, as compared to the same quarter of 2019.

• For loans of 150k or more, you need to prove the revenue decline prior to loan; for loans below 150k, you will need to show this decline when you apply for forgiveness.

The Payroll Protection Program (PPP) loan forgiveness amount will not be considered taxable income at the federal level. This could be a significant tax saving for your business. However, there is not any change in the guidance for state and local tax treatment of PPP funds. Therefore, be sure to check with your own State and local tax authorities for additional information.

Previously, self-employed business owners were eligible to receive the following financial relief under The CARES Act:

• All self-employed workers, contractors, government employees, individuals seeking part-time work, and workers who quit their job or can’t reach their place of work as a result of COVID-19 were eligible for unemployment benefits.

• The law allowed for individuals to claim unemployment benefits for an extended period of time (up to four months) and waives the typical one-week waiting period to start receiving benefits.

• Weekly unemployment benefit payouts were increased by $600.

• The law also revives the “Emergency Unemployment Compensation” program for 13 additional weeks on top of states’ standard programs, meaning that if your state’s total benefit period for unemployment payments is 26-weeks you could receive up to 39 weeks with this federally-funded extension.

• On an individual basis, freelancers were also eligible to receive the direct cash payments to lower- and middle-income Americans of $1,200 for each adult (up to $2,400 for couples), as well as $500 for each child if they meet the stated income.
People with no federal tax liability will receive only $600. It is anticipated that checks will be cut April 6.

- The individual check totals start to phase out from $75,000 to $99,000 ($150,000 to $198,000 for couples filing jointly) in adjusted gross income based (AGI) on 2019 income tax returns. 2018 returns will be used to calculate your AGI if the more recent information is not available). Ultimately, the package will be “reconciled after the fact” with your 2020 earnings, meaning if you earn more or less this year, you may have to pay back some of the relief money or get a bigger rebate next year.

- The law also allows corporations to delay estimated tax payments until October 15, 2020. Self-employed people can also delay payroll taxes.

- In addition, The Department of Education is suspending student loan payments until September 30, 2020 without penalty.

- The federal government also extended FMLA coverage to freelancers and the self-employed who get ill from the coronavirus or who must care for a family member or a child who is not in school due to the pandemic.

**Net Operating Losses may also provide additional funds.** The Act also makes several important changes to Net Operating Loss (NOL) provisions which may help free up your freelance cash flow. Under this act, businesses can use NOLs from tax years starting prior to January 1, 2021, to fully offset their income.

This is a change from the 2017 Tax Cuts and Jobs Act which limited the offset to 80 percent of income. The CARES Act also provides that taxpayers can, for tax years 2018, 2019, and 2020, carry their NOLS back to their five prior taxable years, which could result in a tax refund.

- **The Paycheck Protection Program for business owners.** Another element of The CARES Act is the Paycheck Protection Program. Under this program, the Small Business Administration (SBA) will distribute $350 billion in small business loans that can be partially forgiven if companies meet certain requirements. The objective of the program is to provide up to eight weeks of cash-flow assistance through 100 percent federally guaranteed loans.

Here are the key points about the Paycheck Protection Program:

- The program is retroactive to February 15, 2020.

- The loans are only available to companies with 500 or fewer employees that were in business on Feb. 15, 2020. This includes freelancers, independent contractors, and sole proprietorships.

- The loans will be administered by banks and other lenders via what is anticipated to be an expedited origination process and must be in place by June 30, 2020.
The maximum loan amount available will be the lesser of 2.5 times a company’s average monthly payroll costs during the one-year period before the date on which the loan is made, or $10 million. For new businesses, the period considered would be January 1 to February 29, 2020.

The loans will carry an interest rate of up to 4%.

The loan amount is intended to cover eight weeks of payroll expenses and any additional amounts for making payments towards debt obligations. This eight-week period may be applied to any time frame between February 15, 2020 and June 30, 2020. Seasonal business expenses will be measured using a 12-week period beginning February 15, 2019, or March 1, 2019, whichever the seasonal employer chooses.

The loan will be forgiven at the end of the eight-week period after you take out the loan. Your lender will help you verify covered expenses and the proper amount of forgiveness. If the full principal of the PPP loan is forgiven, the borrower is not responsible for the interest accrued in the 8-week covered period. Be sure to check with your lender about the terms for repaying any portion of your loan that is not forgiven.

The principal of the loan will be forgiven if your business uses the loan funds for certain approved purposes and maintains the average size of its full-time workforce based on when it received the loan. Therefore a business may only be responsible for the interest that accrues, as long as they maintain their employees and pay them at least 75% percent of their prior-year compensation.

Loan forgiveness can be reduced (not increased) by the following formula: 

\[
\frac{\text{# of FTE equivalents during period}}{\text{# of FTE equivalents from January 1, 2020 to February 29, 2020}}
\]

Loans will also be reduced by any wages for an employee whose pay is now more than 25% higher than it was prior to the loan.

The funds from the loan can be used to cover:

- Payroll costs (but not salaries over $100,000).
- Employee commissions and tips.
- Business-related mortgage obligations, rent, and utilities as well as debt obligations on other loans taken out before the Payroll Protection Program loan.
- Healthcare benefits including paid sick or medical leave and insurance premiums.
The Paycheck Protection Program also provides debt relief. For six months the SBA will pay all principal, interest and fees on all existing SBA loan products including 7(a), Community Advantage, 504, and Microloan programs.

This program also includes independent government contractors. Federal agencies are required to extend contract performance periods and promptly pay small business contractors impacted by COVID-19.

The legislation also temporarily increases the maximum amount for an SBA Express loan from $350,000 to $1 million through December 31, 2020.

In December 2020, another round of PPP funding was announced, along with some additional guidance related to the previous round. Here are the key points:

- Eligible expenses paid with PPP funds are now fully deductible.
- Simplified loan forgiveness will be made available for PPP loans of less than $150,000.
- The PPP loan funding is reopened to those who did not apply prior to the August 8, 2020 deadline.
- There is a second round of PPP loans for eligible businesses. Qualification criteria include:
  1. Must have experienced at least a 25% decrease in gross receipts during any quarter in 2020 compared to the same quarter in 2019.
  2. Must have less than 300 employees.
- If eligible, the second-round loan will be calculated the same as the original loan at 2.5 times average monthly payroll for 2019.
- The law requires the SBA to issue regulations within 10 days of the passage of the bill.

Other business-related provisions from the new guidance:

- The employee retention credit is expanded and extended until June 30, 2021.
- Food and beverage expenses related to business meetings are 100% deductible for 2021 and 2022.
The recent Covid relief bill may impact how you handle your NOL situation because the CARES Act temporarily reinstates a carryback period for all NOLs generated in years beginning after Dec. 31, 2017, and before Jan. 1, 2021 (i.e., it applies for tax years 2018, 2019, and 2020). The carryback period for these tax years is five years under the CARES Act, so if you had an NOL in the 2020 tax year, you can carry it back to the 2015 tax year if you had taxable income then and potentially realize a tax refund. You can also carry a NOL forward so you do not have to have the hassle of amending tax returns, however, if you are looking to reduce your taxes now, this won’t be an effective strategy.

This amendment to the NOL rule applies to 2018 and onward so you may want to look at the last two years of returns to see if you can take advantage of it.

If you had a loss in 2018 and 2019 and you do not want to carry back the losses, you’ll need to make sure you identify this on your 2020 tax return and waive the carryback.

The IRS is granting a six-month extension of time to file Form 1045 or Form 1139, as applicable, with respect to the carryback of a net operating loss that arose in any taxable year that began during calendar year 2018 and that ended on or before June 30, 2019. Individuals file Form 1045 and corporations file Form 1139.

The CARES Act NOL guidance also includes provisions to disregard certain amounts of foreign income subject to transition tax that would normally be included as income during the five-year carryback period and the temporary suspension of the TCJA’s 80% limitation on taxable income applied to all NOLs incurred in tax years beginning after December 31, 2017. The CARES Act suspends this 80% taxable income limitation, so you can carry forward 100% of your NOL to fully offset taxable income in tax years beginning before January 1, 2021.

The CARES Act is providing taxpayers with a short window of opportunity to temporarily use the NOL deduction to their advantage. Freelancers with NOLs for tax years 2018, 2019, and/or 2020 could be able to reduce their taxable income and create or increase their opportunity for a tax refund this year with these changes, which could be one small positive from the overall negative effect of Covid-19 on many businesses.

The Impact of Unemployment Income on Taxes for the Self-Employed

- A key part of The CARES Act for freelancers was the ability for the self-employed to apply for unemployment benefits to offset income lost due to the Covid-19 pandemic under the Pandemic Unemployment Assistance (PUA) program.

- This income is taxable—which makes it an important consideration for self-employed individuals who need to factor this in when making estimated tax payments and calculating their annual income tax obligations.
Another key point to remember about any unemployment payments you may have received is that depending on where you reside, they may be subject to not only federal income taxes, but taxes at the state and local levels, too.

For example, if you are living and working in a state such as New York, assume you will be paying federal taxes, New York States taxes and, if you live in New York City, the city tax as well. On the plus side, you don’t have to pay Social Security or Medicare taxes on unemployment income.

Few states exempt unemployment benefits from taxes—check your federal, state and local tax liabilities. If you did receive unemployment payments, be sure to check to see if the state you received them from is one of the few waiving income taxes on them such as California, Montana, New Jersey, Oregon, Pennsylvania and Virginia.

Additionally, these states don’t levy income taxes at all, and this would include unemployment benefits received by residents there: Alaska, Florida, Nevada, South Dakota, Texas, Washington and Wyoming. Even if your state is waiving taxes on unemployment income, you would still owe federal taxes on it and potentially local taxes, however.

Given the impact additional unemployment income may have on your tax picture—especially with the next estimated tax deadline just around the corner, on January 15, now is the time to look at how any unemployment payments you received will impact your tax obligations, both for this quarter and for 2020 overall, so you can make necessary adjustments to your plans for tax payments.

Guidance on the Payroll Protection Program for Self-Employed Individuals
PPP loan forgiveness is not automatic—be sure you apply for it.

Based on recent IRS guidance, any Payroll Protection Program (PPP) loan forgiveness may have a tax impact on your freelance business. How much this will impact your tax obligations depends on the extent to which you are applying for forgiveness based on overhead and other third party costs, which will not be deductible on your 2020 tax return. If you are planning to apply for PPP loan forgiveness, or you already have and are waiting for a final determination, here’s what you need to know:

1. If you are applying for PPP loan forgiveness based payroll, rent, or other eligible expenses, they will not be tax deductible (preventing a double dip by taxpayers) and by inference this may increase your taxes. If for example you are applying for a PPP loan forgiveness amount of $10,000 of payroll and $5,000 of rent expenses, the $15,000 cannot be deducted on your 2020 tax return—which increases your tax liability.
Other expenses which may also receive the same tax treatment if you calculate them into your PPP loan forgiveness amount include utility costs such as electricity, gas, water, transportation, telephone and internet, and mortgage interest. This is applicable only to contracts that were in place before Feb. 15, 2020.

While the formal guidance for most states is still pending, it is likely that they will conform with the Internal Revenue Service code, so you should plan on having a taxable event in this situation at the state level as well.

2. If your PPP forgiveness is based on sole-proprietor or active LLC members profits you should not consider them to be taxable on your 2020 return. This is because the profits are viewed by the IRS as equivalent to a freelance business owner’s salary, on which they pay income and self-employment taxes. As such this will not have a tax impact for PPP loan forgiveness and are not deductible. Keep in mind that salaries over $100,000 are excluded from forgiveness eligibility.

As an example, if you apply for PPP loan forgiveness based on $10,000 profit on Schedule C of your tax return, or the equivalent for partnership returns, then this amount will not have a taxable impact on your tax situation because it was not listed as a deductible expense for tax purposes.

3. Another important caveat in the PPP loan forgiveness equation that you should be aware of is that you have to specifically request loan forgiveness by submitting a request to the lender that is servicing the loan. You will need to provide documents that verify you used PPP funds to make payments on eligible mortgage, lease, and utility obligations. As stated above, you can use your 2019 Schedule C from your tax return to satisfy the self-employment income verification.

Your lender is required to decide on the forgiveness of your loan within 60 days. Keep in mind, any PPP amount not forgiven is loaned at 1% interest rate, with a two-year maturity period and the first payment is due in six months.

- **The IRS provides safe harbor for unforgiven PPP loans.** The IRS also recently announced an unforgiven PPP loan safe harbor regulation for the 2020 tax year, allowing freelancers who forego requesting loan forgiveness to claim a deduction for the otherwise deductible eligible payments on an original income tax return or information return. If you believe you are eligible to receive forgiveness on your PPP loan and you plan to apply for forgiveness next year, then it is critical that you carefully consider which expenses you are eligible to deduct on your on your 2020 tax return otherwise you could end up with an unplanned tax liability.
• **A simplified PPP forgiveness application is now available for the self-employed with loans under $50K** (NOTE: The Dec. 2020 stimulus bill has simplified forgiveness for loans up to $150,000). Did you take a Paycheck Protection Program (PPP) loan for your freelance business of less than $50,000? If so, the U.S. Treasury Department and the Small Business Administration (SBA) made applying for PPP forgiveness a little easier with a simplified loan forgiveness application (**SBA Form 3508S**).

The new interim final rule (IFR) provides guidance on the forgiveness and loan review processes for PPP loans of $50,000 or less. It states that taxpayers with loans meeting these criteria are exempted from any reductions in forgiveness based on:

- Reductions in full-time-equivalent (FTE) employees; and
- Reductions in employee salary or wages.

Keep in mind that this form can only be used if your total PPP loan amount is less than $50,000. If you had an affiliate business and your total in PPP loans pushed you over the $50,000 threshold, you cannot use the new application form. The streamlined IFR has been introduced because borrowers with the smaller loan amounts do not have to calculate FTE or salary reduction calculations. However, your freelance business will need to provide specific certifications and documentation to your lender in regard to any payroll and nonpayroll costs that PPP funds were used for.

• **Certification and documentation of how your freelance business used PPP loan funds are required.** According to the new form, as the borrower you must certify that the PPP loan funds you are including on your forgiveness application only include those:

- Used to pay costs that are eligible for forgiveness (i.e. payroll costs to retain employees; business mortgage interest payments; business rent or lease payments; or business utility payments).
- Includes payroll costs equal to at least 60% of the forgiveness amount.

  If a 24-week Covered Period applies, does not exceed 2.5 months’ worth of 2019 compensation for any owner employee or self-employed individual/general partner, capped at $20,833 per individual; and if the Borrower has elected an 8-week Covered Period, does not exceed 8 weeks’ worth of 2019 compensation for any owner-employee or self-employed individual/general partner, capped at $15,385 per individual.

As a borrower, you are responsible for providing an accurate calculation of your loan forgiveness amount and you must attest to the accuracy of the reported information and calculations on the loan forgiveness application. If the government believes that a taxpayer has knowingly made unqualified claims on
their PPP forgiveness application, they may pursue recovery of funds and/or criminal charges.

Your lender is required to confirm receipt of the documentation that you are required to submit to aid in verifying payroll and nonpayroll costs. If applicable, the lender is also required to confirm your calculations on the loan forgiveness application, up to the amount required to reach the requested forgiveness amount.

- **PPP funds that are forgiven are tax deductible**
  Keep in mind that according to PPP guidance available to date (which is fluid and subject to change) any expenses eligible to be forgiven from your loan amount cant also be deducted on your taxes in the amount that you receive PPP loan forgiveness on them.

  Another important exception to this inability to deduct expenses that are covered under your PPP loan is self-employment income. If you received a PPP loan and used Line 31 on Schedule C of your 2019 tax return to support your loan application, this is the amount of self-employment income that can be factored into your calculation of how much of your PPP loan can be forgiven.

  According to the IFR, the amount of loan forgiveness that a borrower may receive cannot exceed the principal amount of the PPP loan.

- **The streamlined PPP loan forgiveness application will be under scrutiny.**
  The streamlined form is part of the U.S. Treasury Department’s effort to make the PPP forgiveness process easier, but the Department is also on the lookout for potential fraud and the misuse of funds. This means that as a freelance business owner, you should try to be as careful and accurate as possible when submitting the required certifications and documentation for your PPP loan and be aware of the tax implications associated with the forgiveness of these funds.

- **Payroll Protection Program and Economic Injury Disaster Loans.** If you are self-employed and were able to get a loan under the Payroll Protection Program (PPP) or you received an Economic Injury Disaster Loan (EIDL) to offset the financial impact of COVID-19, it is important to understand how they may impact your taxes and how any potential loan forgiveness works.

  - **Self-employed individuals can utilize both PPP loans and EIDL.** Although the funds for the PPP program are largely already dispersed (the deadline for applying was June 30, 2020), even if you have a PPP loan, you can still apply for an EIDL (the deadline for applying for these loans is December 16, 2020). However, be aware that you cannot use the funds from both loan programs for the same purpose.

- **PPP loan forgiveness, self-employment income and your taxes**
Based on the new PPP guidance available to date (which is fluid and subject to change) any expenses eligible to be forgiven from your loan amount cannot also be deducted on your taxes. This means that normally tax-deductible expenses such as payroll expenses, mortgage interest, rent, and utilities are not deductible on your 2020 taxes in the amount that you receive PPP loan forgiveness on them.

In addition, you cannot apply for PPP loan forgiveness on home office deductions, self-employed health insurance or retirement contributions for a business owner. However, if you have a free-standing office that you pay rent on or you pay health insurance or retirement contributions for employees these can be counted as part of your PPP loan forgiveness amount.

Another important exception to this inability to deduct expenses that are covered under your PPP loan is self-employment income. If you received a PPP loan and used Line 31 on Schedule C of your 2019 tax return to support your loan application, this is the amount of self-employment income that can be factored into your calculation of how much of your PPP loan can be forgiven.

The PPP loan forgiveness extension may help the self-employed. On June 7, The Payroll Protection Program Flexibility Act was passed into law, extending the covered period in which borrowers can use Payroll Protection Program (PPP) loan proceeds from eight weeks to 24 weeks. This extension applies to freelancers who received their disbursement prior to the enactment of the PPP Flexibility Act and may be especially helpful to those who are self-employed without business overhead.

Keep in mind that if you elect to use the 24-week covered period, the amount that can be forgiven cannot exceed 2.5 months’ worth of 2019 compensation for any self-employed individual and the amount that can be forgiven is capped at $20,833 per individual.

If you did receive a PPP loan, then you are (hopefully) aware that originally, the Small Business Administration had permitted borrowers to use eight weeks as the covered period. The PPP Loan Extends the “covered period” for PPP loan forgiveness from eight weeks after loan origination to the earlier of 24 weeks after loan origination or December 31, 2020.

Now that the covered period for PPP has been extended, it is important to understand how this may impact you as a freelancer. Here is an example of the potential difference in the PPP loan forgiveness, using the eight-week window vs. the 24-week window, based on an individual reporting $50,000 of self-employment income on their 2019 tax return, with no overhead expenses:

As you can see, using the 24-week covered period allows you to maximize the amount of PPP loan forgiveness available to you, which is an underlying
intention of The Payroll Protection Program Flexibility Act. This is an important cost-saving to take advantage of if you are eligible to do so.

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<td>PPP Loan Amount can borrow (Schedule C Profit/12*2.5)</td>
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<td>PPP Loan Forgiveness Calculation</td>
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<td>Payroll and Nonpayroll Costs</td>
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<td>Payroll Cost</td>
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<td>Business Mortgage Interest Payments</td>
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<td>Payroll Cost 60% Requirement</td>
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<td>PPP Loan Forgiveness Amount (smallest of total costs/PPP Loan/60% Requirement)</td>
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<td>PPP Payback Amount</td>
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Given the fluid nature of the PPP program and the ambiguity that still exists around the process for applying for PPP loan forgiveness, it is essential that self-employed individuals who have participated in the program continue to monitor additional changes and keep track of PPP-related expenses in order to maximize loan forgiveness and avoid unwelcome and unexpected repayment obligations this tax season.

- **Self-employed individuals and Economic Injury Disaster Loans**

  If you are self-employed with employees and did not receive a PPP loan or if you need additional financing due to COVID-19, you may want to consider applying for an EIDL through the federal Small Business Administration (SBA).

  An additional $60 billion to fund Economic Injury Disaster Loans (EIDL) was part of the $484 billion additional COVID-19 relief package approved in late April. You can still apply for EIDL loans at covid19relief.sba.gov. In addition, due to the financial hardships caused by COVID-19, the SBA is offering loan advances to qualified applicants who select this option. You will need to provide a bank routing number and account number for them to deposit the loan advance.

  An EIDL can be used to pay for payroll, fixed debts, accounts payable, and other expenses that you are unable to pay directly due to the impact of COVID-19. Your EIDL, minus the forgiven portion, will be payable over up to 30 years at 3.75%
interest. The terms include an automatic one-year deferral on repayment with interest continuing to accrue during this period.

- **EIDL forgiveness is automatic—but only for advance portions of the loan**

  A portion of EIDL loans—the advance portion up to $10,000—can be forgiven. Unlike PPP loans, EIDL forgiveness is automatic, as long as you document and spend the money on qualified expenses as noted above.

  Be aware that the forgivable loan advance is not a flat $10,000 but $1,000 per employee with a maximum of $10,000 (10 or more employees). Your EIDL advance will not have to be repaid provided that you use the money for the following:

  - Paid leave
  - Payroll
  - Increased material costs
  - Mortgage, lease, or rent payments
  - Covering obligations that occur due to revenue loss

  The following are specific expenses that you cannot use your EIDL advance (or loan) for. If you do, you will not receive forgiveness and you may be subject to immediate payback:

    - The replacement of lost sales or profits.
    - Business expansion.
    - Refinancing long-term debt.

  Since the EIDL loan and loan advance are considered disaster funds by the SBA, the penalty for misuse may be immediate repayment of one-and-a-half times the original loan amount and possible criminal charges.

**Tax implications and the EIDL advance**

An EIDL advance is essentially a small business grant of up to $10,000. Although specific guidance has not yet come from the IRS, the advance portion of the EIDL is likely going to need to be included in your taxable income. Based on previous IRS guidance in regard to forgiven SBA loan amounts. Therefore, if you receive an EIDL advance for the full available $10,000, you will need to add this to your taxable income at the end of the year—and you’ll also be able to deduct expenses that you paid with this grant.

As you can see the PPP loans and EIDLs made available during COVID-19 have brought with them short-term financial relief for many self-employed individuals. However, they also carry with them important financial and tax obligations that all participants in these programs should be aware of. If you are unsure of how these loans may impact your taxes, consider reaching out to a tax professional who can
help you understand the implications and ensure that you get the full benefit of these programs without facing any unexpected financial consequences.

Now that the covered period for PPP has been extended, it is important to understand how this may impact you as a freelancer. Here is an example of the potential difference in the PPP loan forgiveness, using the eight-week window vs. the 24-week window), based on an individual reporting $50,000 of self-employment income on their 2019 tax return, with no overhead expenses:

<table>
<thead>
<tr>
<th>2019 Schedule C Profit $50,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>PPP Loan Amount can borrow (Schedule C Profit/12*2.5)</td>
</tr>
<tr>
<td>PPP Loan Forgiveness Calculation</td>
</tr>
<tr>
<td>Payroll and Nonpayroll Costs</td>
</tr>
<tr>
<td>Payroll Cost</td>
</tr>
<tr>
<td>Business Mortgage Interest Payments</td>
</tr>
<tr>
<td>Business Rent or Lease Payments</td>
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<tr>
<td>Business Utility Payments</td>
</tr>
<tr>
<td>Subtotal</td>
</tr>
<tr>
<td>PPP Loan Amount</td>
</tr>
<tr>
<td>Payroll Cost 60% Requirement</td>
</tr>
<tr>
<td>PPP Loan Forgiveness Amount (smallest of total costs/PPP Loan/60% Requirement)</td>
</tr>
<tr>
<td>PPP Payback Amount</td>
</tr>
</tbody>
</table>

As you can see, using the 24-week covered period allows you to maximize the amount of PPP loan forgiveness available to you, which is an underlying intention of The Payroll Protection Program Flexibility Act. This is an important cost-saving to take advantage of if you are eligible to do so.

As a reminder for freelancers, the eligible expenses that can be included in the payroll calculation include any compensation or income that is a wage, commission, income, net earnings from self-employment (There is an annual income cap of $100,000, which is pro-rated for the loan forgiveness period), or similar compensation. Expenses for a free-standing, separate office or payroll cost for staff are also included.

There are also some important exclusions to the allowable PPP loan expenses, including home office deductions, your own health insurance costs and retirement contributions.
• **Temporary relocation during the pandemic may impact your tax obligations.**

The pandemic has been motivating factor in some self-employed individuals moving to avoid being in a hotspot for the virus or to be closer to family. While it can be advantageous to move in some regards, it may also affect your tax situation, so it’s important to know what is considered an actual move and how it may impact your local, county and state tax obligations.

For example, I have received a lot of calls from clients telling me that they moved out of New York City and therefore don’t want to pay New York State or New York City taxes (New York City charges 2 to 3 percent income tax). My answer to them is simple: just because you are living out of state for a few months doesn’t mean you have moved—at least not in terms of state and local tax laws.

From a tax perspective, if you retain your residence in a particular state but live temporarily elsewhere, you are merely living out of state, it isn’t a move that absolves you from paying taxes in your primary geographic location. In fact, if you own a freelance business, it may actually open you up to having to pay tax in another location. Here’s an overview of how this might play out for you as a self-employed business owner:

**Speaking in broad, general terms, any location you temporarily relocate to work for a year or less is not considered a permanent location.** A temporary work location is any place where you realistically expect to work (and do in fact work) less than one year. If you have a regular place of business outside of your home, then you can deduct the cost of commuting to a temporary work location.

**Be aware of how working in another location—even temporarily—may affect the tax nexus of your freelance business.** When businesses engage in economic activity in multiple states, such as when a freelancer works in one state and then moves temporarily to another to work, they are creating a tax nexus in those locations. The tax nexus determines which states, cities and counties have a right to tax the freelance business and the term apportionment refers to how much of the business’s net income those states can claim.

The tax nexus also determines whether a freelance or other business has sufficient presence in a locality, county or state to be obligated for taxes on any part of its revenue-generating activity. The apportionment determines the division of that income to ensure the appropriate

**Become familiar with the tax rules related to each locality and state you do business in.** Each local government and state determine the share of a company’s net income that is subject to income tax through an apportionment formula. Each state and locality are different but all use sales and may also factor in property and payroll located in its jurisdiction.

**Sales tax may also factor into your obligations.** If you sell products or offer services requiring you to collect sales tax (which is different in each jurisdiction), you may
already be aware of the collection and reporting obligations required when you sell in different states. States impose sales tax both based on a physical and economic nexus. Each state has various rules.

Beware of your freelance tax implications if you have relocated during the pandemic. The pandemic has forced many people to change the way they live and work. If you have moved to work in a different city or a different state, it is imperative that you understand how this change of working location impacts your taxes. Do your research now so you do not have a surprise during tax time.

The deferral of payroll taxes and its impact on the self-employed. President Trump signed an executive order which included language to defer payroll tax obligations by 50 percent from August 1 through the end of the year if your self-employment income is less than $104,000. This means instead of paying 15.30% in Medicare and Social Security taxes eligible freelancers will pay 7.65%.

As far as the payroll tax goes, it may feel like a tax cut for a short period of time because you won’t technically have to pay the full freight on your self-employment taxes, but it is important to note that it is only a tax deferral, meaning the taxes will still be due at a later date. If you have any questions, please let us know.

Need Help with Your Taxes?

Contact Us

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