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Re: Families First Coronavirus Response Act: Credits for the Self-Employed

March 24, 2020

Dear Clients and Friends,

On March 18, 2020, the President signed the Families First Coronavirus Response Act (Coronavirus Response Act) which increases funding for various programs and addresses paid sick and family leave, including tax credits for employers and self-employed persons.

The Coronavirus Response Act requires employers with fewer than 500 employees to provide paid sick leave to employees who are forced to stay home due to quarantining or the care for a family member (qualified sick leave) or to care for a child if the school or place of care is closed (qualified family leave).

In the case of sick leave wages paid by an employer to an employee, the employer may receive a refundable credit against its share of either the OASDI or the RRTA portion (as applicable) of the payroll tax. A separate refundable payroll tax credit applies for family leave wages paid by an employer under the Coronavirus Response Act.

Self-employed persons may also benefit from the sick and family leave credits as if they were an employee of an employer (other than himself or herself). For self-employed persons, the credits are allowed against regular taxes.

Credit for Qualified Sick Leave

The limit on sick leave wages is determined by multiplying the number of days the self-employed person is unable to perform services in their trade or business by the lesser of 67% of the taxpayer's average daily self-employment income, or \$200. The number of days is limited to 10 for the tax year.

The limits are increased to 100% and \$511, respectively if the self-employed person is unable to perform services for the following reasons:

- 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.

The amount of the sick leave credit is reduced by any sick leave wages the taxpayer might receive as an employee which exceed \$2,000 (\$5,110 in the case of any day covered for the three reasons described above).

Credit for Qualified Family Leave

The same calculation is made for family leave wages, with days unable to perform services multiplied by the lesser of 67% of the taxpayer's average daily self-employment income, or \$200. The number of days is limited to 50 for the tax year.

The amount of the family leave credit is reduced by any family leave wages in excess of \$10,000 that the taxpayer might receive as an employee.

Average Daily Self-Employment Income.

The taxpayer's average daily self-employment income is defined as the amount of net earnings from self-employment for the tax year divided by 260.

These credits expire on December 31, 2020. The IRS is expected to provide additional guidance soon. Please call our office to discuss the details of how these tax benefits may help you through a difficult time.

Sincerely,

DUFFY KRUSPODIN, LLP