

# **COVID-19 Tax Relief for Businesses in California**

The deadline to file and pay federal income taxes are extended to July 15, 2020. Individuals and businesses have until mid-July to file federal taxes without penalty. Businesses needing a filing extension may submit request form 7004 on the IRS.gov website. An extension to file is not an extension to pay any taxes owed.

In addition to the federal income tax filing extension, there are several programs that may provide your business additional tax relief if your business has been affected by the COVID-19 pandemic.

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This document has been prepared by the CSUMB Institute for Innovation and Economic Development from publicly available sources to support regional businesses through the COVID-19 emergency. For more information, contact [info@startupmontereybay.com](mailto:info@startupmontereybay.com). Visit us at [www.startupmontereybay.com](http://www.startupmontereybay.com).

# Credit for Sick and Family Leave

Eligible Employers are entitled to receive a credit in the full amount of the qualified sick leave wages and qualified family leave wages, plus allocable qualified health plan expenses and the employer's share of Medicare tax, paid for leave during the period beginning April 1, 2020, and ending December 31, 2020.

## ***Credit for Sick and Family Leave***

An employee who is unable to work (including telework) because of coronavirus quarantine or self-quarantine or has coronavirus symptoms and is seeking a medical diagnosis, is entitled to paid sick leave for up to ten days (up to 80 hours) at the employee's regular rate of pay, or, if higher, the Federal minimum wage or any applicable State or local minimum wage, up to \$511 per day, but no more than \$5,110 in total.

## ***Caring for someone with Coronavirus***

An employee who is unable to work due to caring for someone with coronavirus, or caring for a child because the child's school or place of care is closed, or the paid child care provider is unavailable due to the coronavirus, is entitled to paid sick leave for up to two weeks (up to 80 hours) at two-thirds the employee's regular rate of pay or, if higher, the Federal minimum wage or any applicable State or local minimum wage, up to \$200 per day, but no more than \$2,000 in total.

## ***Care for children due to daycare or school closure***

An employee who is unable to work because of a need to care for a child whose school or place of care is closed or whose child care provider is unavailable due to the coronavirus, is also entitled to paid family and medical leave equal to two-thirds of the employee's regular pay, up to \$200 per day and \$10,000 in total. Up to ten weeks of qualifying leave can be counted towards the family leave credit.

## ***Credit for eligible employers***

Eligible employers are entitled to receive a credit in the full amount of the required sick leave and family leave, plus related health plan expenses and the employer's share of Medicare tax on the leave, for the period of April 1, 2020, through December 31, 2020. The refundable credit is applied against certain employment taxes on wages paid to all employees.

### ***How to claim credits***

Eligible Employers will report their total qualified leave wages and the related credits for each quarter on their federal employment tax returns, usually Form 941, Employer's Quarterly Federal Tax Return. Form 941 is used to report income and social security and Medicare taxes withheld by the employer from employee wages, as well as the employer's portion of social security and Medicare tax.

In anticipation of receiving the credits, Eligible Employers can fund qualified leave wages (and allocable qualified health plan expenses and the Eligible Employer's share of Medicare tax on the qualified leave wages) by accessing federal employment taxes, including withheld taxes, that are required to be deposited with the IRS or by requesting an advance from the IRS.

Covered employers qualify for dollar-for-dollar reimbursement through tax credits for all qualifying wages paid under the Families First Coronavirus Response Act (FFCRA). Qualifying wages are those paid to an employee who takes leave under the Act for a qualifying reason, up to the appropriate per diem and aggregate payment caps. Applicable tax credits also extend to amounts paid or incurred to maintain health insurance coverage.

# Employee Retention Credit under the CARES Act

The Employee Retention Credit is a fully refundable tax credit for employers equal to 50 percent of qualified wages (including allocable qualified health plan expenses) that Eligible Employers pay their employees. This Employee Retention Credit applies to qualified wages paid after March 12, 2020, and before January 1, 2021. The maximum amount of qualified wages taken into account with respect to each employee for all calendar quarters is \$10,000, so that the maximum credit for an Eligible Employer for qualified wages paid to any employee is \$5,000.

## *Who is an Eligible Employer?*

The credit is available to all employers regardless of size, including tax-exempt organizations. There are only two exceptions: State and local governments and their instrumentalities and small businesses who take small business loans.

Eligible Employers for the purposes of the Employee Retention Credit are those that carry on a trade or business during calendar year 2020, including a tax-exempt organization, that either:

- Fully or partially suspends operation during any calendar quarter in 2020 due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19; or
- Experiences a significant decline in gross receipts during the calendar quarter.

Note: Governmental employers are not Eligible Employers for the Employee Retention Credit. Also, Self-employed individuals are not eligible for this credit for their self-employment services or earnings.

## *What are “Qualified Wages”?*

Qualified wages are wages and compensation paid by an Eligible Employer to employees after March 12, 2020, and before January 1, 2021. Qualified wages include the Eligible Employer’s qualified health plan expenses that are properly allocable to the wages.

The definition of qualified wages depends, in part, on the average number of full-time employees employed by the Eligible Employer during 2019.

**Employers with less than 100 employees:** If the employer had 100 or fewer employees on average in 2019, the credit is based on wages paid to all employees, regardless if they worked or not. If the employees worked full time and were paid for full time work, the employer still receives the credit.

**Employers with more than 100 employees:** If the employer had more than 100 employees on average in 2019, then the credit is allowed only for wages paid to employees who did not work during the calendar quarter.

If the Eligible Employer averaged more than 100 full-time employees in 2019, qualified wages are the wages paid to an employee for time that the employee is not providing services due to either (1) a full or partial suspension of operations by order of a governmental authority due to COVID-19, or (2) a significant decline in gross receipts. For these employers, qualified wages taken into account for an employee may not exceed what the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.

If the Eligible Employer averaged 100 or fewer full-time employees in 2019, qualified wages are the wages paid to any employee during any period of economic hardship described in (1) and (2) above.

***I am an eligible employer. How do I receive my credit?***

Employers can be immediately reimbursed for the credit by reducing their required deposits of payroll taxes that have been withheld from employees' wages by the amount of the credit.

Eligible employers will report their total qualified wages and the related health insurance costs for each quarter on their quarterly employment tax returns or Form 941 beginning with the second quarter. If the employer's employment tax deposits are not sufficient to cover the credit, the employer may receive an advance payment from the IRS by submitting Form 7200, Advance Payment of Employer Credits Due to COVID-19 at <https://www.irs.gov/forms-pubs/about-form-7200>

## Work Opportunity Tax Credit (WOTC)

The WOTC has two purposes:

1. To promote the hiring of individuals who qualify as a member of a target group.
2. To provide a federal tax credit to employers who hire these individuals.

When an employer hires an individual who meets the criteria for this program, they may be able to claim federal tax credits against wages paid.

### *Who is qualified for WOTC?*

Individuals hired from the following target groups may qualify an employer for the WOTC:

#### **Group A** – Qualified Short-Term Recipients of Temporary Assistance to Needy Families (TANF)

Any individual who is a member of a family that received TANF benefits for any 9-month period during the 18-month period ending on the hiring date.

#### **Group B** – Qualified Veterans

Any qualified veteran who is:

**Ba** - a member of a family that received food stamps, i.e., Supplemental Nutrition Assistance Program (SNAP) benefits for at least a 3-month period during the 15-month period ending on the hiring date, or

**Bb** - entitled to compensation for a service-connected disability hired within one year of discharge or release from active duty, or

**Bc** - entitled to compensation for a service-connected disability and unemployed for a period or periods totaling at least 6 months of the year ending on the hiring date, or

**Bd** - unemployed for at least 4 weeks (but less than 6 months) during the one-year period ending on the hiring date, or

**Be** - unemployed for at least 6 months or more within one year of the hiring date.

Note: To be considered a qualified veteran for this purpose, the individual must meet these two standards:

Served on active duty, not including training, in the U.S. Armed Forces for more than 180 days or have been discharged or released from active duty for a service-connected disability; and

Not have a period of active duty, not including training, of more than 90 days that ended during the 60-day period concluding on the hiring date.

#### **Group C** – Qualified Ex-Felon

Any individual who has been convicted of a felony under any statute of the United States or any state. Has a hire date that is not more than one year after the last date on which the individual was convicted (if not incarcerated) or was released from prison.

**Group D – Qualified Designated Community Resident**

Any individual age 18 through 39 who, on the hire date is a resident of a designated Federal Empowerment Zone (EZ) or Rural Renewal County (RRC).

**Group E – Qualified Vocational Rehabilitation Referral**

Any individual who has a physical or mental disability which results in a substantial barrier to employment, and is hired within two years of receiving those services.

**Group F – Qualified Summer Youth Employee**

Any individual who is age 16 through 17 on the hire date and is a resident of a Federal Empowerment Zone (EZ) or Rural Renewal County and has not been employed by the same employer prior to the 90-day summer period between May 1 and September 15.

**Group G – Qualified Food Stamp (SNAP) Recipient**

Any individual who is age 18 through 39 on the hiring date and is a member of a family who received food stamps/Supplemental Nutrition Assistance Program (SNAP) benefits for a consecutive six-month period ending on the hiring date, or qualifies under federal law as an “able-bodied adult without dependents” (ABAWD 1), is 18 through 39 years of age on the hiring date, and received SNAP benefits for at least three months out of the five-month period ending on the hiring date and is no longer receiving SNAP benefits on the hiring date.

**Group H – Qualified Supplemental Security Income Recipient**

Any individual who:

Is receiving Supplemental Security Income (SSI) payments under Title XVI of the Social Security Act for any month ending within the 60-day period ending on the hiring date.

Note: Those receiving Social Security Disability Income (SSDI) are not the same as SSI recipients.

**Group I – Qualified Long-Term Family Assistance Recipient**

Any individual who:

Has received Temporary Assistance to Needy Families (TANF), or a successor program, for at least 18 consecutive months ending on the hiring date, or

Has received TANF for a total of at least 18 months, whether or not the months are consecutive, beginning after August 5, 1997, and whose hiring date is not more than two years after the end of the earliest 18-month period, or

Whose TANF eligibility expired, and has a hiring date within two years of the TANF eligibility expiration date, but after August 5, 1997.

## **Group L – Qualified Long-Term Unemployment Recipient**

Any individual who:

On the day before the individual begins work for the employer, or, if earlier, the day the individual completes the IRS Form 8850 as a pre screening notice, is in a period of unemployment that is not less than 27 consecutive weeks, and  
Includes a period (which may be less than 27 weeks) in which the individual received unemployment compensation under State or Federal law.

**Note:** Employers may not request certification on former employees who have been rehired. The employee must have been WOTC-qualified and certified as such only the first time they were hired by the employer. No tax credit can be claimed for wages paid to relatives. The tax credit is not valid for a son or daughter, stepson or stepdaughter, brother or sister, stepbrother or stepsister, father or mother, stepfather or stepmother, niece or nephew, uncle or aunt, son-in-law or daughter-in-law, father-in-law or mother-in-law, brother-in-law or sister-in-law, descendants of any of the aforementioned, or if the employee resides in the home of the employer.

### ***What are the tax credit amounts?***

For Target Group(s):

A, Ba, Bd, C, D, E, G, H, L, the maximum tax credit amount is a 40 percent tax credit on qualified first year wages up to \$6,000, or \$2,400 for a one-year period.

Bb, Disabled Veteran (hired within one year of separation), the maximum tax credit amount is a 40 percent tax credit on qualified first year wages up to \$12,000 or \$4,800 for a one-year period.

Bc, Disabled Veteran, unemployed 6 months or more, the maximum tax credit amount is a 40 percent tax credit on qualified first year wages up to \$24,000 or \$9,600 for a one-year period.

Be, Unemployed Veteran, unemployed 6 months or more, the maximum tax credit amount is a 40 percent tax credit on qualified first year wages up to \$14,000 or \$5,600 for a one-year period.

**Note:** In order to claim the tax credit, the employee must be retained 400 hours or more for a 40 percent tax credit on qualified first year wages. For the employee that is retained at least 120 hours but less than 400 hours, a 25 percent credit is available on qualified first year wages.

## ***Determining Eligibility***

The employer must first determine if the applicant is willing to provide the required information. Prospective employees are not required to provide information of this sort to an employer. Their participation must be voluntary. If the applicant is willing to provide the required information, have them complete the Pre-Screening Notice and Certification Request for the Work Opportunity Credit, IRS Form 8850.

The IRS Form 8850 must be completed on or before the day the applicant is offered employment.

## ***Requesting Certification***

If the employer believes that, based on the information provided on the IRS Form 8850, the job applicant meets the requirements for one or more target groups, complete all items on the Individual Characteristics Form, Work Opportunity Tax Credit, ETA Form 9061.

If the applicant has a Conditional Certification, Work Opportunity Tax Credit, ETA Form 9062, potential eligibility has already been determined by the EDD or a participating agency. The employer must complete the employer portion of the Conditional Certification, ETA Form 9062, and submit it with IRS Form 8850. The employer does not have to complete the Individual Characteristics Form, ETA Form 9061.

If the applicant has identified as being a member of the Long-Term Unemployment Recipient target group, the Long-Term Unemployment Recipient Self-Attestation Form, ETA 9175, may be submitted with IRS Form 8850 and ETA Form 9061.

All forms may be submitted online via eWOTC at <https://eddservices.edd.ca.gov/ewotc/secure/>, or mailed to: WOTC Center 2901 50th Street Sacramento, CA 95817

If the applicant meets all the criteria, the WOTC Center will send the employer a WOTC Certification. If the IRS Form 8850 is timely but incomplete, the WOTC Center will notify the employer by mail and request the additional information necessary to make a WOTC eligibility determination. Otherwise, the WOTC Center will send the employer a letter denying their request for certification stating the reasons for the denial.

## Deferred Sales and Use Tax Liability

This program gives all businesses with less than \$5 million in annual taxable sales the ability to defer payment on up to \$50,000 in sales and use tax liability without incurring any penalties or interest.

Qualifying businesses can enter into payment plans to distribute up to \$50,000 of sales tax liability over a 12-month period, interest-free. For taxpayers choosing to defer their 1st quarter 2020 liability, for example, up to \$50,000 of the obligation would now be paid in twelve equal monthly installments, with the first payment not due until July 31, 2020.

Request a payment plan at <https://onlineservices.cdtfa.ca.gov/>

## California State Payroll Tax Relief

If you are experiencing a hardship as a result of COVID-19, you may request up to a 60-day extension of time from the EDD to file your state payroll reports and/or deposit state payroll taxes without penalty or interest. A written request for extension must be received within 60 days from the original delinquent date of the payment or return.

For questions, call the EDD Taxpayer Assistance Center at 1-888-745-3886.

## Additional Resources

California Department of Tax and Fee Administration (CDTFA)

<https://www.cdtfa.ca.gov/>

California Department of Tax and Fee Administration (CDTFA) en Español

<https://www.cdtfa.ca.gov/services/covid19-es.htm>

California Department of Tax and Fee Administration File and Pay Deadlines

<https://www.cdtfa.ca.gov/services/extensions-to-file.htm>

IRS: Employee Retention Credit

<https://www.irs.gov/newsroom/irs-employee-retention-credit-available-for-many-businesses-financially-impacted-by-covid-19>

Work Sharing Program

[https://www.edd.ca.gov/Unemployment/Work\\_Sharing\\_Program.htm](https://www.edd.ca.gov/Unemployment/Work_Sharing_Program.htm)

Virtual Learning Session for Entrepreneurs Affected by COVID-19

<https://business.ca.gov/californias-entrepreneurship-task-force-hosts-second-virtual-learning-session-for-entrepreneurs-affected-by-covid-19-pandemic/>

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