

Sick Leave & Family Leave Credit for Self-Employed

- *Two rounds created: 4/1/2020 – 3/31/2021 and 4/1/2021 – 9/30/21*
- *First round was 50 days of \$10,000, and second round is 60 days or max \$12,000*
- *Second round for sick leave (part 1 and part 2) and family leave are enhanced to cover more reasons*
- *A new 2021 Self-employed COVID Worksheet, with both Parts*
- *Taxpayers should complete the worksheet, not the Counselor*
- *Change for 2021: sick leave requires specifies the exact dates that the person could not work*

Prepared for AARP Tax-Aide State Training December 2021

Presented by Roger Vawter

Portal References

Training Slides:

17 - Income Business TY21 Rel. 1

35 - Miscellaneous Credits TY 21 Rel. 1

Tax Return Reference Materials:

2021 Self-Employed COVID Worksheet

Background

Round 1 (4-1-20 to 3-31-21)

3-18-2020 - Families First Coronavirus Response Act (Families First Act) was passed and included provisions for self-employed individuals to receive refundable credits for Sick and Family Leave using new Form 7202 starting 4-1-2020 thru 12-31-2020.

12-21-20 - Consolidated Appropriations Act extended these provisions thru 3-31-2021.

Round 2 (4-1-21 to 9-30-21)

3-11-2021- American Rescue Plan extended these provisions from 4-1-2021 thru 9-30-2021 and also changed the amount of the credits and eligibility requirements.

2020 Tax Preparation

For 2020 tax preparation, the Form 7202 had two parts:

Part I was used to calculate the Sick Leave credits. Note, that you did not actually have to be SICK to claim this part of the credit.

This part consisted of two scenarios for the Sick Leave and these are simplified as:

- 1) You were unable to work because you were affected by COVID-19.

The taxpayer is entitled to the paid sick leave credit up to \$5,110 in total, for up to 10 days times the lower of the “average daily self-employment income” or \$511. The “average daily self-employment income” is an amount equal to the net earnings from self-employment of the individual for the taxable year, divided by 260. The 260 represents the total number of

work days in 2020 using a 5-day work week and 52 weeks. 5 days/week x 52 weeks = 260 days.

- 2) You were unable to work because you were caring for an individual affected by COVID-19.

The taxpayer is entitled to paid sick leave credit up to \$2,000 in total, for up to 10 days times the lower of 67% of the “average daily self-employment income” or \$200.

Part II was used to calculate the Family Leave credits

This part consisted of only one scenario for the Family Leave and is simplified as: You were unable to work because you were providing coronavirus-related care to your child (family).

The taxpayer is entitled to paid family leave credit, the lower of: up to \$10,000 in total credits or up to 50 days times the lower of 67% of the “average daily self-employment income” or \$200.

For either Part I or Part II, the taxpayer could use their 2019 Schedule C net profit to compute the “average daily self-employment income” (instead of 2020 Schedule C) if that produces a better result. There is an entry field in TaxSlayer 2020 to add additional 2019 net profit (2019 net profit minus 2020 net profit).

For all cases, the amount of credit was reduced by any qualified sick or family leave wages you received from an employer and this was an entry in TaxSlayer.

The affected days were from 4-1-2020 thru 12-31-2020 for TY 2020.

The Portal had a 2020 Self-Employed COVID Worksheet that should be used to assist in determining the number of affected days for each category. The Worksheet also had documentation requirements and the completed Worksheet should be placed in the Taxpayer folder.

Looking at the Worksheet, you will notice there is duplication of reasons in the different parts. There is also a hierarchy of dollar value credits for the different parts. If a SE individual had more than 10 days of lost work, one can judiciously assign the number of days to the categories to maximize the credit, first using the 10 days and then the remainder up to the limit (50 days) provided the criteria is met.

The 2020 TaxSlayer entries reflected the Part I (scenario 1 and 2) and Part II number of affected days (Caution: These don't match the Worksheet verbiage):

Part I Scenario 1: “I required care for myself”

Part I Scenario 2: “I provided care to another”

Part II: “I provided care to my son or daughter because their school or place of care was closed”

The TaxSlayer software then performed the calculations and computed the allowed credits. These should be reviewed and verified on the Form 7202.

Lessons Learned From 2020

- District 7 did see a few of these situations where the credit could be claimed by a self-employed taxpayer.
- Use caution when asking the probing questions to determine the necessary details about the who, what, when, where and why. Many individuals are sensitive when it comes to sharing details about the coronavirus for themselves and family.
- None of the taxpayers had any knowledge of this credit and did not maintain any documentation. We had to ask probing questions and walk the taxpayer through the Worksheet. Documentation only consisted of notes and dates that we added to the Worksheet.
- We did give affected taxpayers a blank copy of the Worksheet and advised them that these credits were extended into 2021 and asked them to keep track of affected days in 2021. It is doubtful that we will see much documentation for 2021 and counselors will again be asking the probing questions to get the Worksheet completed.
- We found the 2020 Worksheet to be confusing and difficult to use due to all the duplicate reasons in the different sections. The 2021 Worksheet looks to be even more challenging and it would be unrealistic to expect a taxpayer to complete this on their own.
- One approach is to ask the probing questions to determine the details for any lost work days for the SE individual and then complete the Worksheet to assign the lost work days to the proper section of the Worksheet.

2021 Tax Preparation

The 2021 tax preparation will be more complicated because we will have to deal with both Round 1 and Round 2 requirements along with the different affected dates. There will be six different affected days entries in TaxSlayer.

Currently there is no method in Practice Lab to enter the exact dates for the affected days.

Round 1 (see 2020 info above) rules will apply for 1-1-2021 thru 3-31-2021.

Round 2 rules will apply for 4-1-2021 thru 9-30-2021. The number of days for the Family Leave credit was increased from 50 to 60 with a \$12,000 max and the 10-day limit on the maximum number of days for the Sick Leave credit was reset to begin again on 1-1-2021.

Training Slides state: Taxpayer can elect to use 2020 net earnings from self-employment for 2021 – need to see 2020 return. This is what is in Practice Lab:

To use 2020 net earnings from self-employment when calculating any applicable credit using Form 7202, the 2020 Net SE earnings MUST BE greater than the 2021 Net SE Earnings. If this is the case for your client, enter as a positive number, the difference between 2020 and 2021 Net SE Earnings into the field below. The manually entered value will add to the already calculated 2020 Net SE Earnings and carry to Line 7 of Form 7202.

There is a 2021 Self-Employed COVID Worksheet in the Portal. This details the six different possible entries and the requirements for Round 1 and Round 2. This Worksheet also details the documentation requirements.

TaxSlayer – access the entry from Federal Section / COVID-19 Relief:

Form F7202 - Credits for Sick Leave and Family Leave

Who is this Form 7202 for?
Taxpayer

[Net earnings from self-employment](#)

Self-employment earnings for TERRY
\$22,813.00

Adjust your net earnings from self-employment

To use 2020 net earnings from self-employment when calculating any applicable credit using Form 7202, the 2020 Net SE earnings MUST BE greater than the 2021 Net SE Earnings. If this is the case for your client, enter as a positive number the difference between 2020 and 2021 Net SE Earnings into the field below. The manually entered value will add to the already calculated 2020 Net SE Earnings and carry to Line 7 of Form 7202.

Locating the 2020 Net SE Earning: to locate 2020 net self-employment earnings, in most instances, refer to Line 6 of the 2020 Schedule SE. You can also refer to Form 7202 instructions for additional guidance by clicking [HERE](#)

For example: If the 2021 Net SE Earnings is \$10,000, but in 2020 it was \$17,000, the difference is \$7,000. Inside the TaxSlayer application, \$7,000 would be entered in the adjustment field. This would add to the \$10,000 already calculated in the return and carry a total of \$17,000 to Line 7 of Form 7202.

\$

Were you unable to work due to COVID-19? *

- Yes
 No

Credits for Sick Leave and Family Leave Between 01/01/2021 and 03/31/2021

Tell us about any care you received or provided.

- I required care for myself.
 I provided care to another.
 I provided care to my son or daughter because their school or place of care was closed.

Credits for Sick Leave and Family Leave Between 04/01/2021 and 09/30/2021

Tell us about any care you received or provided.

- I required care for myself.
 I provided care to another.
 I provided care to my son or daughter because their school or place of care was closed.

CANCEL

CONTINUE

Copyright © 2021 TaxSlayer Pro

Homework and In-Class Exercise

Use the Terry Baldwin focused exercise as an example.

Original Return

Schedule C

Gross Receipts 39,375
Expenses 12,672 (11,570 + truck 1102)
Net Profit 26,703

Adjustments to Income

Deductible SE Tax 1887
SE Health Ins 3400

AGI 21,416

Estimated Payments 6600

Refund 2119

During your interview with Terry, you determine he was affected by COVID and you and Terry complete the 2021 Self-Employed COVID Worksheet – copy attached.

There was no employer sick or family leave received and the prior year SE income was less than the 2021 SE income.

Complete the inputs into the Sick Leave and Family Leave Credit input screen found in Federal Section / COVID-19 Relief. 12-1-2021 after completing this entry, Practice Lab has an error message and you have to exit and re-enter the return. The entries are saved and the Form 7202 is completed.

There is now an additional refundable credit of 4976 for a total refund of 7095.

Form 7202

Round 1

- Line 1 is 6 days
- Line 2 is 10 days however the max for the Sick Leave is 10 days, so the form only allows 4 days
- Line 8 shows the allowed limit at \$95 for the 6 days ($24,660 \div 260$ days)
- Line 10 shows a credit of \$570 ($\95×6 days)
- Line 11 shows the allowed limit at \$64 for the 4 days ($\$95 \times .67$)
- Line 13 shows a credit of \$256 ($\64×4)

Round 2

- Line 36 is 10 days
- Line 44 shows credit of \$950 ($\95×10 days)
- Line 59 appears to be incorrect in this version of Practice Lab – it should allow the full 60 days.
- Line 64 shows credit of \$3200 ($\64×50 days) – this should be $\$64 \times 60 = \3840

Total refundable credit is $570 + 256 + 950 + 3200 = 4976$