COVID-19: Frequently Asked Questions About Changes to Taxes

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Due to the COVID-19 pandemic, the federal government and the State of Illinois have changed the filing deadline for tax returns and have made changes to tax law that could benefit small business owners. Below are some of the key questions to consider when small business owners review these changes.

The FAQs here are for informational purposes only. To learn how these changes apply to your situation, please consult your tax advisor.

FAQ for Both Individuals and Businesses

Tax Deadlines: When are taxes due?

Federal tax returns for the 2019 tax year are due on July 15, 2020. Taxpayers can also defer paying federal income taxes from the old deadline, April 15, 2020, to July 15, 2020, without paying penalties or interest.1

Illinois state income tax returns and payments for the 2019 tax year are also due on July 15, 2020.2 You can cancel or reschedule a 2019 Illinois state income tax return electronic payment, but only if you do so before its scheduled date. Information on how to do so is available here: [https://www2.illinois.gov/rev/research/news/Pages/Directions-to-Cancel-or-Reschedule-2019-Income-Tax-Return-Electronic-Payment.aspx](https://www2.illinois.gov/rev/research/news/Pages/Directions-to-Cancel-or-Reschedule-2019-Income-Tax-Return-Electronic-Payment.aspx).

Illinois has also changed its estimated payment requirements, which are due every quarter. The deadlines themselves have not changed.3 For 2020, estimated tax payments can be based upon any of the following: 100% of their estimated liability for 2020, or 100% of their actual liability for either 2019 or 2018. Illinois recommends that taxpayers who have filed their 2019 return to use their actual liability for 2019. Taxpayers can avoid penalties by timely paying in four equal installments whichever is lesser: 90% of their 2020 liability or 100% of their liability for years 2018 or 2019. Businesses need to make estimated payments to Illinois if they are corporations and they expect their tax and surcharge liability to be more than $400 for the year. But partnerships, trusts, and small business corporations (sometimes called S-Corps) are not required to make estimated tax payments.4

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4 [https://www2.illinois.gov/rev/research/publications/bulletins/Documents/2020/FY2020-26.pdf; https://www2.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/StepByStepGuide.aspx](https://www2.illinois.gov/dceo/SmallBizAssistance/BeginHere/Pages/StepByStepGuide.aspx)
Illinois sales taxes are also due on their regular dates.\(^5\) Any taxpayer that is supposed to file Illinois Forms ST-1, Sales and Use Tax, will need to file them for each reporting period by their original due dates. But now there is a special rule for taxpayers operating a bar or restaurant that had less than $75,000 in tax liability in 2019.\(^6\) If the rule applies to you, your eating or drinking establishment won’t be subject to penalties or interest for late sales tax payments for the March, April, and May 2020 reporting periods, as long as you pay the taxes on the following schedule:

- May 20, 2020: One quarter (1/4) of your sales tax liability for the March, April, and May 2020 reporting periods;
- June 22, 2020: Another quarter of that liability;
- July 20, 2020: Another quarter of that liability;
- August 20, 2020: Another quarter of that liability.\(^7\)

Even though in total you will be paying all of the sales tax liability that you owed for March, April, and May, this relief has the advantage of letting many bars and restaurants defer their payments, which can be helpful when there is so much financial pressure from the pandemic.

**FAQs for Individuals Only**

**Stimulus Check: When will I receive my recovery rebate, also called an economic impact payment?**\(^8\) *How much will I receive?*

The CARES Act gives direct financial assistance to many individuals. The rebate is an advance refund of credits against your 2020 taxes (which would normally be paid in 2021).

The full amount is $1,200 for individuals, or $2,400 for joint filers, plus $500 for each child. People who make less than $75,000 for individuals or $150,000 for joint filers can receive the full amount. The amount of the rebate is phased out by $5 for every $100 above this full amount threshold ($75,000 for individuals, $150,000 for joint filers). As a result, the rebate amount is completely phased-out for individuals without children with income exceeding $99,000, or for married couples without children filing jointly with income exceeding $198,000.

In general, to determine a taxpayer’s eligibility, the IRS will use 2018 tax returns, unless a 2019 return has already been filed.

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If you did not file a tax return in 2018 and are not required to file one for 2019, you can provide the IRS with your direct deposit information on the IRS’s “Non-Filers: Enter Payment Info” webpage, available at https://www.irs.gov/coronavirus/non-filers-enter-payment-info-here.

The IRS has tracker for you to check the payment status of your recovery rebate. It is available at https://www.irs.gov/coronavirus/economic-impact-payments.

**Early Withdrawal: Can people withdraw from their retirement funds early?**

Normally, early withdrawals from qualified retirement funds—which include 401(k)s and traditional and Roth IRAs—are usually subject to an additional 10% tax. The CARES Act allows for these rules to be relaxed for individuals affected by COVID-19: namely, if individuals or their spouse or dependents are diagnosed with COVID-19, or if they are facing certain hardships due to COVID-19, such as layoffs, furloughs, inability to work, or lack of childcare causing an inability to work. If any of these conditions are met, up to $100,000 in early distribution is not subject to the additional 10% tax. The amount distributed can be repaid into the retirement fund at any point in the three years after the early distribution, without having to apply the annual contribution cap.

The distribution itself is taxable. But taxpayers will now spread the amount of the early distribution across their gross income over three years, instead of under the normal rule, which would have included it in the year of distribution.

**FAQs for Businesses**


**PPP Loans: What is the tax treatment of SBA Loans (PPP) loans? What is the tax treatment if these loans are forgiven?**

Receipt of Paycheck Protection Program (PPP) loan proceeds are not taxable.

PPP loans can be forgiven. Normally, this cancellation of indebtedness would be considered taxable income for the person with the debt that was cancelled. But now, under the CARES Act, the forgiveness of a PPP loan is generally excluded from taxable income. This means that a taxpayer will not be taxed on the amount that was forgiven, so long as the money went to essential expenses such as maintaining payroll.

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9 I.R.C. § 72(t).
If the PPP loans are forgiven, the expenses paid using those loan proceeds can’t be deducted like they normally otherwise would. So, PPP loans can’t be used to gain a double tax benefit.10

**Deferring Payroll Taxes: Can employers defer payroll taxes?**

Congress has provided various relief measures related to employment taxes. There are several types of employment taxes, but most of the relief measures relate to the employer’s 6.2% portion of the social security tax on employee wages.

The CARES Act lets certain employers defer these payroll taxes—those that arise during the period between March 27, 2020 and December 31, 2020. Employers do not need to make a special election to defer deposits and payments. Half of the deferred amounts must be paid by December 31, 2021, and the other half by December 31, 2022.

You can defer payroll taxes even after receiving PPP loans.11 This rule has changed recently. Previously, you could no longer defer payroll taxes after receiving a decision from the lender that your PPP loan was forgiven.12 This is no longer the case.

Self-employed individuals can defer paying 50% of the social security tax on net earnings from self-employment income.

**Employee Retention Credit: What is the Employee Retention Credit under the CARES Act? Who is eligible for it?**

The Employee Retention Credit is meant to encourage employers to keep their employees on their payroll. It gives “eligible employers” a refundable credit against federal employment taxes, i.e., the employer’s share of social security taxes. As a refundable credit, even if the credit exceeds your employment tax liability, you can get the remaining money back after it is offset against any remaining tax liability on the employment tax return. Effectively, the credit reduces payroll costs by up to 6.2% of payroll.

This credit is equal to 50% of “qualified wages,” paid or incurred by the employer in a calendar quarter from March 13, 2020 through December 31, 2020. The amount of qualified wages includes allocable qualified health plan expenses, and is limited to $10,000 per employee over the course of all calendar quarters.13 This means the maximum credit for qualified wages paid to any employee is $5,000.

To be an eligible employer, an employer must meet two requirements. First, it must carry on a trade or business during the 2020 calendar year. Second, it must have either been affected by a

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11 H.R. 7010 was signed into law on June 5, 2020.
lockdown or have had a significant decline in gross receipts during the calendar quarter. Specifically, as to this second requirement, the employer needs to fulfill at least one of these two conditions: (i) its operations were fully or partially suspended because an appropriate governmental authority limited commerce, travel, or group meetings because of COVID-19; or (ii) have a “significant decline in gross receipts,” meaning the first calendar quarter where gross receipts are less than 50% of gross receipts for the same quarter in the year before. The “significant decline in gross receipts” ends with either the first calendar quarter of 2021 or the first calendar quarter after the one in which the employer’s 2020 quarterly gross receipts are greater than 80% of its gross receipts for the same calendar quarter in 2019.\(^\text{14}\)

Employers should keep records for the relevant calendar years in 2019 and 2020 to document the significant decline in gross receipts, and keep the records for at least four years.\(^\text{15}\)

Self-employed individuals cannot use this credit for their own self-employment earnings, but they may be able to claim the credit for wages paid to their employees if they meet the requirements to be an eligible employer.\(^\text{16}\)

The definition of “qualified wages” depends on the number of full-time employees of the eligible employer during 2019. For eligible employers with 100 or fewer full-time employees, all wages paid by the employer, up to the applicable limits, are qualified wages. Qualified wages do not include the amount of qualified sick and family leave wages for which the employer receives tax credits under the Families First Coronavirus Response Act (see, Sick Leave, below).

Employers can claim the credit by filing a Form 7200 or by reducing (without facing a penalty) the amount of the credit from payroll taxes that the employer would otherwise need to deposit with the IRS. Form 7200 provides an avenue for eligible employers to obtain an advance of the credit, even if they did not have enough federal employment tax deposits.\(^\text{17}\) Form 7200 and its instructions are available here: https://www.irs.gov/forms-pubs/about-form-7200.

This Employee Retention Credit is not available to employers that receive a PPP loan authorized under the CARES Act, unless it has repaid the loan before May 14, 2020.\(^\text{18}\)

Any qualified wages for which an eligible employer claims the Employee Retention Credit does not count toward the paid family and medical leave credit (I.R.C. § 45S).

Sick Leave: What are the tax relief provisions for employers related to qualified sick leave related to COVID-19?

The Families First Coronavirus Response Act (FFCRA) gives employers a refundable credit for qualified sick leave. The FFCRA generally requires small employers—those with fewer than 500 employers—to provide paid temporary sick leave to employees who can’t work because of COVID-19, such as if the employee has been exposed to someone with the virus.

The FFCRA gives employers a refundable tax credit against payroll taxes for each calendar quarter, equal to 100% of the qualified sick leave wages paid in each quarter between April 1, 2020, and December 31, 2020. The maximum number of sick leave days each calendar quarter for this credit is ten days minus any days taken in an earlier quarter.19

An eligible employer can receive both the Employee Retention Credit under the CARES Act and the qualified leave wages under the FFCRA, but not for the same wages.

An employer can claim this credit by filing a Form 7200 or by reducing (without facing a penalty) the amount of the credit from payroll taxes that the employer otherwise would need to deposit with the IRS. Form 7200 and its instructions are available here: https://www.irs.gov/forms-pubs/about-form-7200.

Employee Student Loans: What happens if employers help pay employees’ student loans?

The CARES Act lets employers make payments for an employee’s student loans, either to the employee or directly to a lender on behalf of that employee. The payments will be excluded from the employee’s income, up to $5,250. Any other educational assistance given to the employee also counts toward this limit.

Improving Non-Residential Property: Does the CARES Act give a tax incentive for improving business property?

Qualified Improvement Property, which means improvements to the interior of a non-residential building, can now get 100% bonus depreciation for the year when it is put in service. That means that you can write off the amount of the Qualified Improvement Property in the first year you use it. Normally, you would have to spread out the cost over the life of the asset.

The CARES Act made a technical correction so that “Qualified Improvement Property” is defined as “15-year property” in the Internal Revenue Code, which is eligible for 100% bonus depreciation. The amendment is retroactive to 2018, so businesses who want to claim a refund for having paid excess tax can file amended returns for the 2018 or 2019 (if 2019 was already filed).

**Alcohol for Hand Sanitizer:** Are there any changes to the tax treatment of alcohol used to make hand sanitizer?

Yes, there are both federal and state temporary changes.

The CARES Act gives a temporary exception from federal alcohol excise taxes on alcohol used to make hand sanitizer. This exception is only for 2020.

Distillers can temporarily claim a deduction for alcohol used to make hand sanitizer for their state taxes. ILCC-licensed distillers or craft distillers converting their alcohol production to alcohol used in hand sanitizer must report the alcohol as a deduction on Schedule RL-115 to accompany their monthly Form RL-26 tax return. The deduction should be noted as “COVID-19 Alcohol.” Schedule R must be electronically filed. More details on electronic filing for Liquor Taxes are available here: https://www2.illinois.gov/rev/taxprofessionals/electronicfiling/other/Pages/liquor.aspx.

**Disaster Relief Payments:** Is there a way to deduct payments I make to help my employees during this time?

Yes, employers can make “qualified disaster relief payments” to employees during a “federally declared disaster,” under Section 139 of the federal tax code. The COVID-19 pandemic is a federally declared disaster, as of March 13, 2020.

Qualified disaster relief payments generally include amounts for employees’ reasonable and necessary personal, family, living, or funeral expenses incurred because of the disaster. So, if COVID-19 causes an employee to face medical expenses not covered by insurance, transportation expenses, or child care expenses, an employer’s payments for those amounts can count as qualified disaster relief payments. But amounts for nonessential items or services, or amounts paid as income replacement (like lost wages or sick leave) do not count as qualified disaster relief payments.

Employers can fully deduct qualified disaster relief payments. The payments are also tax-free for the employees receiving them.

**Illinois Sales Tax Exemption Number:** What happens if my Illinois Sales Tax Exemption Number expires or has expired in 2020?

Illinois has extended expiration dates on Illinois Sales Tax Exemption (“E”) Numbers for certificate holders whose certificates expired during calendar year 2020. Certificate holders do not need to request the E Number extension. If this applies to you and you want your E-number

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20 https://www2.illinois.gov/rev/Pages/Taxpayer-Resources-during-COVID-19-(Coronavirus)-Outbreak.aspx
to stay valid after December 31, 2020, make sure you complete your renewal process by that date.²¹