

Questions/Answers

1. The family leave act is ending December 31. Does this apply to wages actually paid by 12/31 or can the wages be paid in January for time missed in December

Moot question due to Relief Act

2. For self-employed sick leave credit do you need to show a separate sick leave payment was made...separate from a regular draw.

from IRS FAQs

61. How is the "qualified sick leave equivalent amount" for an eligible self-employed individual calculated?

For an eligible self-employed individual who is unable to work or telework because the individual:

1. Is subject to a Federal, State, or local quarantine or isolation order related to COVID-19;
2. Has been advised by a health care provider to self-quarantine due to concerns related to COVID-19; or
3. Is experiencing symptoms of COVID-19 and seeking a medical diagnosis,

the qualified sick leave equivalent amount is equal to the number of days during the taxable year that the individual cannot perform services in the applicable trade or business for one of the three above reasons, multiplied by the lesser of \$511 or 100 percent of the "average daily self-employment income" of the individual for the taxable year.

For an eligible self-employed individual who is unable to work or telework because the individual:

1. Is caring for an individual who is subject to a Federal, State, or local quarantine or isolation order related to COVID-19, or has been advised by a health care provider to self-quarantine due to concerns related to COVID-19;
2. Is caring for a child if the child's school or place of care has been closed, or child care provider is unavailable due to COVID-19 precautions; or
3. Is experiencing any other substantially similar condition specified by the Secretary of Health and Human Services in consultation with the Secretary of the Treasury and the Secretary of Labor,

the qualified sick leave equivalent amount is equal to the number of days during the taxable year that the individual cannot perform services in the applicable trade or business for one of the three above reasons, multiplied by the lesser of \$200 or 67 percent of the "average daily self-employment income" of the individual for the taxable year.

In either case, the maximum number of days a self-employed individual may take into account in determining the qualified sick leave equivalent amount is ten.

Note: The only days that may be taken into account in determining the qualified sick leave equivalent amount are days occurring during the period beginning on April 1, 2020, and ending on December 31, 2020.

62. How is the "average daily self-employment income" for an eligible self-employed individual calculated?

Average daily self-employment income is an amount equal to the net earnings from self-employment for the taxable year divided by 260. A taxpayer's net earnings from self-employment are based on the gross income that he or she derives from the taxpayer's trade or business minus ordinary and necessary trade or business expenses.

3. Farmer that pays spouse wages, able to deduct medical exp. etc. from Sch. F. Received PPP loan for wages for spouse, can he pay spouse an additional wage, report on W-2 and be able to deduct that? Assuming he can't deduct PPP wage loan.

Expense not used to claim forgiveness could still have been expenses. Now moot question.

4. Can a self employed person having a seasonal business use the 4 1/2 month division rule to their 2019 Sch C for the PPP loan

Not a tax question and I've seen no guidance on this. Logic would say no because the income generated would be deemed sufficient for the year (by the taxpayer) or supplemented with other income. However, rules are not always logical. There's always a chance that the lender would know of the ruling on this.

5. Sorry one more question on PPP Forgiveness - I am reading the 3508EZ instructions and I see where/how I calculate the amount for the Sch C/F owners. However, for the documents needed to confirm the amount written down on the Payroll line, none would actually apply - could we just submit a copy of the Sch C/F from 2019 and call it good? Or is there something else you recommend for us to send with the 3508EZ?

Not a tax question and currently left up to the lending institution unless SBA issues other guidelines. Submitting the 2019 schedule seems logical.

6. In the reasonable method allocation, would ordinary income from a 4797 sale be included in total gross receipts? I would think you would need to add that net amount to Sch F, line 9.

The safe harbor method prorates expenses based on coop qualified payments as a percent of total qualified business income which includes ordinary gains from business property on Form 4797.

7. So optional SE method increased SE tax but not income tax, and does qualify for EIC - I am comparing this to the farmer who used ser 179 to maximize EIC but refund was denied. these 2 methods seem similar in that they 'create' their EIC refund. thoughts???

I do not understand why the EIC was disallowed when Sec 179 was used to manage income level. That is no different than managing income by purchasing more (or less) feed (or fertilizer). Could there have been another reason? Optional SE is definitely permitted to create SE income for purposes of EIC and IRA contributions.

8. How do you track the deferred 1245 gain on Like-Kind Exchanges reported on Form 8824?? My tax software doesn't record this for future sales.

You need to set up a line item on the depreciation schedule that is linked to the acquired asset. It would have cost and accumulated depreciation equal to the deferred ordinary gain and would be "sold" off when the acquired asset is sold.

9. Pg 98, Ex. 4.16, is Jim required to file a gift tax return?

No. Since no capital interest is transferred at the time Greg enters there is no gift being made.

10. If a dad and mom (retired farmer land owner) dies and at death there was an option agreement for the Son to purchase the land upon death for say \$500,000 when the land value has a FMV of say \$2,000,000 (planning so land is not probated), if the son exercises the option is his basis in the land 500,000 or the FMV of 2,000,000? and other tax issues to consider?

Need more information. Generally, yes, basis is the purchase price. If he were sole beneficiary, he would not exercise the option and would have inherited (FMV) basis instead. I have seen taxpayers apply the part sale/part gift (or inheritance) rules and say that the remaining \$1.5 million was transferred by will (or gift by the other beneficiaries). I would want a qualified tax attorney to render an opinion in that case. If the parents have not yet died, I recommend having an attorney clarify the will to have the son inheriting all but \$500,000 of the property. The son would still have a purchase option on the entire property to protect him in case the parents decide to change their wills! He'd probably rather have the farm at lower basis in that situation than lose it altogether!