

Tax Relief for Small Businesses in California

Note: These FAQs provide some general guidance on the tax relief programs available for California small businesses and their owners during the COVID-19 emergency. However, each business owner must consider whether their business qualifies for any particular relief measure. This document does not constitute legal advice, and cannot substitute for expert consultation.

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General Reminders

- The current COVID-19 pandemic is an evolving situation. Governmental and private actors continue to assess the impact of the pandemic on small businesses and others, and new programs (or changes to existing ones) continue to develop. Stay tuned to reliable sources (see suggestions in the below Q&A) for updates.
- Beware that not all relief programs are compatible (including relief besides tax measures not covered here), and restrictions are generally aimed at preventing “double-dipping”. For example, businesses cannot receive both an Employee Retention Credit tax credit and a “Paycheck Protection Program” loan for retaining the same workers.
- ***If you have a regular tax advisor or CPA, it is strongly recommended that you speak with them regarding your ability to receive relief in your specific circumstances.***

Federal Employment Tax Relief

Q: What tax relief is available to employers who are required to provide paid family and medical leave under recent Coronavirus relief legislation (*i.e.*, the Families First Coronavirus Relief Act (the “FFCRA”))?

The FFCRA generally requires businesses with less than 500 employees to provide paid sick leave and expanded family and medical leave to their employees. A small business with fewer than 50 employees is generally exempt if doing so would jeopardize its viability as a going concern. Please see and the Department of Labor’s [FAQs](#) for more information.

If you are required to provide the expanded family and medical leave benefit to any of your employees, tax credits may be available in an amount equal to 2/3 of the employee’s regular pay per day, up to \$200 per day and for up to 10 weeks.

The amount considered to be part of the employee’s pay for purposes of calculating this tax credit includes that employee’s wages, certain health plan expenses and the employer’s share of the Medicare tax. Amounts paid pursuant to the FFCRA are also not subject to the employer’s portion of the social security tax.

These tax credits have additional eligibility requirements and limitations. For these details and more, consult the [Summary and FAQ](#) provided by the IRS.

Q: What tax relief is available to employers generally under recent Coronavirus relief legislation (*i.e.*, the Coronavirus CARES Act)?

Under the CARES Act, employee retention tax credits against the employer’s portion of any payroll taxes are available to all qualifying employers for wages paid to employees beginning with the first calendar quarter in which the employer qualifies, and ending with the last calendar quarter in which the employer qualifies.

The amount of the tax credit is equal to 50% of any wages and certain health plan expenses paid to an employee up to a total of \$10,000 per employee. Available employee retention tax credits will be reduced by any tax credits claimed for paid family and medical leave pursuant to the FFCRA (discussed above).

These tax credits have additional eligibility requirements and limitations. For these details and more, consult the [Summary and FAQ](#) provided by the IRS.

Q: How do I claim the tax credit available under the FFCRA or the CARES Act?

The tax credit may be used to offset the employer’s portion of any social security taxes that would otherwise be payable. If the tax credit exceeds the social security taxes owed, the excess is “refundable”, meaning you can receive a payment for the amount by which your available tax credit exceeds the employer’s portion of social security taxes owed.

Any refundable amount can be claimed when you file [IRS Form 941](#) (Employer’s quarterly Federal Tax Return) as normally required, or by filing the new [IRS Form 7200](#) (Advance Payment of Employer Credits Due to COVID-19) in order to receive advanced payment of any refundable amounts. In addition, you may retain any amounts you anticipate being refunded out of employment taxes that you otherwise owe to the federal government, including federal income taxes withheld from employees, your employees’ share of social security and Medicare taxes, and your share of social security and Medicare taxes with respect to all employees. Any retained employment taxes must be repaid at a later date.

Federal Income Tax Relief

Q: What if I have to pay federal income taxes soon and/or have to file a federal income tax return for my business?

The IRS has extended a number of deadlines for filing income tax returns and paying the associated taxes. The application of these various extensions will depend on the structure of your business.

- **Sole Proprietorships/Single-Member Limited Liability Companies (LLCs):** If you, as an individual, include your business's income on your own individual tax return (Form 1040, generally) either because you personally own your business directly, or because you operate your business through a LLC of which you are the sole owner, then the relevant filing deadlines will be those for individuals. The deadline for filing individual federal tax returns for 2019 has been automatically extended from April 15, 2020 until July 15, 2020. If that extension is not sufficient, individuals may request a further extension on [IRS Form 4868](#).
- **Corporations:** If your business is a corporation for US tax purposes (including an entity whose name ends with "Corporation" or "Inc.", or, in less common circumstances, LLCs that have made a separate tax election to be treated as a corporation), then the deadline has also been extended from April 15, 2020 until July 15, 2020.
- **Partnerships (including most multi-member LLCs):** If your business is treated as a partnership for US tax purposes (*i.e.*, typically this would be an LLC that has more than one member or a limited partnership), then the deadline of March 15, 2020 for your tax return on Form 1065 has not been extended unless you have applied for an extension under normal circumstances. The partners/members required to include their share of the income of your business on their own tax returns, however, will be permitted to extend their tax filing deadline in accordance with the previous two bullets.

Q: My business is a corporation, and we may have difficulty meeting our income tax or other financial obligations. Are there additional federal tax benefits available?

The CARES Act did provide additional benefits for businesses that are structured as corporations that might be available to your business.

- **Net Operating Losses:** If your company has been in a loss position for tax purposes during 2018 or 2019, or you expect to be in a loss position in 2020, you may be able to apply those losses (i.e., “net operating losses” or “NOLs”) against income from up to five years prior to the year in which they were generated. As a simplified example, if you had \$100,000 in NOLs in 2019, but you had \$100,000 of positive income in 2016, then you could reduce your income in 2016 to \$0, and obtain a refund for taxes you paid in 2016. In addition, you will not be prevented from deducting the full amount of any available NOLs in 2020, despite the ordinary rule limiting your NOL deduction to 80% of taxable income.
- **Charitable Contributions:** Corporations that ordinarily would be limited to deducting charitable contributions up to 10% of their income may now deduct them up to 25% of their income.

Other benefits may be available as well. Your regular tax accounting advisors should be able to advise if they will apply to you.

Q: Where can I find updates or additional resources about federal tax relief programs?

Information regarding all tax-related COVID-19 relief programs offered by the federal government can be found [HERE](#).

California Tax Relief

Q: What if I have to pay California state income taxes soon and/or have to file a California state income tax return for my business?

The California FTB (*i.e.*, California's equivalent of the IRS) has extended the deadlines for filing tax returns and paying the associated taxes for all taxpayers (including individuals, corporations, partnerships, LLCs, etc.) that are required to file a tax return between March 12, 2020 and July 15, 2020 until July 15, 2020.

Additional information about California income tax deadlines can be found [HERE](#).

Q: What if I have to pay California sales taxes soon and/or have to file a California sales tax return for my business?

Governor Newsom issued an executive order directing the California Tax and Fee Administration to extend deadlines for filing sales tax returns among other relief provisions:

- **Extension for Filing:** The deadline for filing tax returns for many California sales and use taxes has been extended for three months if the tax return shows less than \$1 million in sales taxes or other taxes and fees administered by the California Tax and Fee Administration. A full listing of the new deadlines is provided [HERE](#).
- **Payment Plans:** Small businesses with less than \$5 million in annual sales may request to enroll in a payment plan in order to pay their sales taxes over time. That plan allows for a 12-month extension without interest for up to \$50,000.

Additional information about California sales and use taxes can be found [HERE](#).

If your business pays sales taxes in any state other than California, we recommend that you check the website of that state for any potential relief measures, or consult with your regular tax advisor.

Q: What if I have to pay California property taxes soon?

California property taxes are administered by county governments, and the state government has not yet required those counties to extend their regular property tax deadline from April 10th. Some counties have provided extensions or penalty relief, but not all have done so.

Los Angeles County has provided that a taxpayer that is unable to pay property taxes by the April 10th due date may submit a request to cancel any penalties they would otherwise incur if they can show that they have been affected by COVID-19. Additional information can be found [HERE](#).

If your property is located in another county, see that county's website for additional information.