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# SELF-EMPLOYED TAX CREDIT (SETC) FAQ

FREQUENTLY ASKED QUESTIONS

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## **Self-Employed Tax Credit (SETC) Frequently Asked Questions**

### **What is the SETC tax credit program?**

In March 2020, the Families First Coronavirus Response Act (FFCRA) was signed into law to help companies offer paid sick leave and unemployment benefits caused by COVID-19. Initially, the FFCRA focused on employers with W-2 employees to help them weather the economic impact caused by the pandemic.

In December 2020, Congress passed the Coronavirus Aid, Relief, and Economic Security (CARES) Act, which expanded the FFCRA to cover employers and the self-employed. Thanks to the FFCRA expansion, self-employed individuals, freelancers, independent contractors, and gig workers are now eligible for tax credits that pay you back for the time you would've typically spent earning money that was lost because of COVID.

The FFCRA is federal legislation passed in response to the COVID-19 pandemic. It provides paid sick leave, free COVID-19 testing, food assistance, and unemployment benefits and stipulates employer-provided health insurance protection. For self-employed individuals, it offers equivalent coverage via tax credits that can be claimed on your income tax return, effectively reimbursing you for periods of sick leave due to COVID-19.

### **How much is the SETC credit?**

The FFCRA Tax credit can be up to \$32,220, based on your self-employed net earnings in 2020 and 2021.

To calculate your FFCRA credit, we use your daily average self-employment income (this is your net earnings for the taxable year divided by 260) and the amount of self-employment work missed due to COVID-19-related issues. This allows the IRS to estimate how much you lost in wages for every day you could not work.

### **How can I claim the SETC tax credits?**

To claim the FFCRA tax credits, you must determine your eligibility and amend your 2020 and/or 2021 tax returns and their supporting schedules. To amend these returns, it is recommended to use a Certified Public Accountant (CPA) to obtain the best results. This can take countless hours and funds. Or let World Class Digital do it for you! Our CPA team has created the fastest, safest, and most accessible tool for self-employed individuals and sole proprietors to claim the federal FFCRA tax credits you deserve.

## **Who Qualifies for the SETC tax credits?**

To qualify for the SETC, you must meet the following criteria:

- Identify as a Self-employed individual. A few examples, but not limited to, include sole proprietors, independent business owners, 1099 contractors, freelancers, gig workers, and single-member LLC, taxed as a Sole-proprietorship.
- Have filed a Schedule SE of IRS Tax Form 1040 in 2020 and/or 2021 with positive net income and paid self-employment tax on your earnings for the years 2019 and/or 2020 and or 2021.
- Have missed work due to COVID-19-related issues.

## **What qualifies as a reason for claiming SETC?**

To qualify for SETC tax credits, you must have missed self-employment work due to COVID-related issues. If you were unable to work because of one of the following reasons, you may be eligible:

- A government agency imposed a quarantine or isolation order.
- Your doctor recommended you self-quarantine.
- You were having COVID-19 symptoms while also waiting for an appointment with your doctor.
- You were waiting for COVID-19-related test results.
- You were getting vaccinated against COVID-19.
- You were experiencing side effects from the COVID-19 vaccine

## **What dates are eligible for SETC tax credits?**

The SETC covers the days you were unable to perform self-employment work from April 1, 2020 - September 30, 2021.

Here is a breakdown of the number of days you could be eligible Childcare related time off - up to 110 days

- 50 days between April 1, 2020 and March 31, 2021
- 60 days between April 1, 2021, and September 30, 2021

Yourself or loved ones - up to 20 days

- 10 days between April 1, 2020 and March 31, 2021
- 10 days between April 1, 2021, and September 30, 2021

You took care of your children who were affected by school or daycare shutdowns.

You took care of someone else/family member who had COVID-19 issues.

## **How is the credit amount determined?**

The amount you receive depends on your average daily self-employment income and the days you missed self-employed work due to COVID-related issues, including government quarantine orders, self-quarantine, COVID-19 symptoms, and seeking medical diagnosis.

The credit for the childcare portion is calculated by multiplying the number of days on leave and taking whichever amount is smaller:

- Your average daily self-employment income per year or:
- \$511.

The credit for missing self-employment work due to a personal COVID-related issue or due to taking care of another person is calculated by multiplying the number of days on leave and taking whichever amount is smaller:

- 2/3 of your average daily self-employment income or:
- \$200.

## **How much is the SETC credit?**

The SETC Tax credit can be up to \$32,220, based on your self-employed net earnings in 2020 and 2021.

To calculate your SETC credit, we use your daily average self-employment income (this is your net earnings for the taxable year divided by 260) and the amount of self-employment work missed due to COVID-19-related issues. This allows the IRS to estimate how much you lost in wages for every day you could not work.

## **What is the average SETC refund people receive?**

The average World Class Digital customer has received an SETC refund of \$9,400.

## **How long does it take to receive a refund?**

It can take up to three weeks for the IRS to acknowledge the acceptance of your SETC credit application and up to 20 weeks from that acceptance to receive your refund via check or direct deposit.

## **Why haven't I heard of the SETC tax credits before?**

Initially, the SETC focused on employers with W-2 employees. While the CARES Act was passed later that same year with the expansion to provide tax credits to the self-employed, it was not widely publicized. Research shows over 80% of self-employed individuals are unaware they're entitled to the SETC tax credits.

## **Are there any deadlines for claiming the SETC tax credits?**

Yes, the deadline to amend your 2020 and/or 2021 tax return for claiming or adjusting SETC credits is three years from the original due date of the return or within two years from the date you paid the tax, whichever is later. The deadline for filing for the SETC tax credits for your 2020 tax return is April 15, 2024, and your 2021 tax return is April 15, 2025, unless you filed an extension but would not suggest pushing that limit.

## **What if I already filed my taxes for 2020 & 2021?**

Our CPAs and EAs must file an amended tax return for each year applicable. All we require from you is a copy of your 2019, 2020, and 2021 tax returns and a copy of your driver's license, and we'll handle the rest.

## **What if I have NOT filed the 2020 or 2021, can I still receive the SETC?**

Yes. but you will have to use an alternative CPA or Online Tax Filing Platform to complete your returns prior to proceeding with your SETC Application.

## **I understand that I have to have self-employed in either 2019, 2020 or 2021. Can the 2020 self-employed income be used for both the 2020 and 2021 amendments ?**

Yes! For 2020, you can elect to use either the 2019 or 2020 self-employed income to qualify. For 2021, you can elect to use either the 2020 or 2021 self-employed income to qualify.

## **Is this similar to the PPP program?**

The PPP (Paycheck Protection Program) and SETC (Families First Coronavirus Response Act) are two distinct initiatives responding to the economic impact of the COVID-19 pandemic. PPP assists small businesses by providing loans with the potential for loan forgiveness. SETC is not a loan but a credit on taxes individuals have already paid. While PPP supported businesses, SETC focused on helping individuals.

## **What is the Sick & Family Leave Tax Credit?**

The Sick and Family Leave Tax Credit for self-employed and 1099 workers is for eligible self-employed individuals or independent contractors. Under the FFCRA, eligible self-employed individuals or independent contractors could claim a refundable tax credit against their income tax liability for up to 100% of the qualified sick and family leave equivalent amounts, subject to certain limitations if they were unable to work or telework due to COVID-19-related reasons.

The qualified sick leave equivalent amount was the lesser of either \$511 per day or 100% of the average daily self-employment income/260 for each day an individual was unable to work or telework because they were subject to a quarantine or isolation order, had COVID-19 symptoms and were seeking a medical diagnosis, or were caring for someone who was subject to a quarantine or isolation order or who had COVID-19 symptoms.

The qualified family leave equivalent amount was the lesser of either \$200 per day or 67% of the average daily self-employment income for each day an individual was unable to work or telework because they needed to care for a child whose school or place of care was closed due to COVID-19.

## **Is SETC a loan or a grant?**

SETC is a tax credit, not a loan. It is also not considered a grant as it's a refund of taxes you've already paid. The tax credits are designed to cover the same expenses that mandatory paid leave would cover for employees. If you're sick or caring for someone due to COVID-19, or you're experiencing conditions that prevent you from working, these credits aim to compensate you for your lost income.

## **What documentation do I need to provide?**

For the most part, we only require your 2019, 2020, and 2021 tax returns, including your Schedule C and a copy of your driver's license for identification.

## **How much are your processing fees?**

Our fee schedule is really simple. We charge an No upfront fee.

**20% Service Fee** - to Anchor Accounting for facilitating the application and submitting it to the IRS.

**3% Loan Origination Fee** - If you elect to get the credit fronted to you instead of waiting 6 months for the IRS to mail you a check. (Private Equity Firm Partner)

**15% Broker Fee** - Fee paid to World Class Digital for facilitating the transaction.

## **Does filing for SETC tax credits impact filing my 2023 income taxes?**

Filing for the SETC tax credit will not impact filing your 2023 income taxes. To receive SETC tax credits, our team of CPAs will amend the taxes you already filed for 2020 and/or 2021.

## **Do I have to fill out a ton of paperwork?**

Not at all. Our website has an agreement letter that you must read, sign, and date. You will also need to upload a copy of your 2019, 2020, and 2021 tax returns and a copy of your driver's license. We try to make the process as easy and stress-free as possible. Once we have your tax returns, we'll take over and get everything filed for you.

## **Do I have to be self-employed to file for the tax credit refund?**

Yes. This tax credit is only for self-employed individuals, small business owners, freelancers, and 1099 contractors.

## **How much of a tax credit can I expect to receive?**

A few factors go into calculating your tax credit refund amount. The most significant factors would be:

- Your net income from your Schedule C on your 2019, 2020, and 2021 tax returns.
- How many days you were out sick or told to quarantine with Covid-19
- How long you might have cared for a loved one affected by Covid-19.
- How long were schools or daycare centers closed (and you were forced to care for a minor child during the closings).

But the fastest and easiest way to find out how much you qualify for is to simply use our online [Tax Credit Calculator](#)

### **If the taxpayer and spouse both have self-employed income, can they both get the Self-Employed Tax Credit (SETC)?**

Yes. They can both get the credit but they cannot share qualifying COVID days!

### **If the taxpayer and spouse both have self-employed income, can they both get the max \$32,220, if they each qualified for the max?**

Yes. They can both get the max credit but again, they cannot share qualifying COVID days!

### **Is the Self-Employed Tax Credit (SETC) taxable?**

No. Unlike the ERTC, it is not taxable!

### **How long before I will receive my cash refund?**

Once we receive the necessary paperwork from you, we will begin to work on your case immediately and get all the forms filed; then, it is up to the IRS to send your refund directly to you.

For the most part, we find that it usually takes 12–16 weeks to complete the process and receive your cash refund.

## **Terminology Questions**

### **What is the definition of a dependent?**

The IRS defines a dependent as either a qualifying child or relative of the taxpayer. The relative can be your child, stepchild, foster child, sibling, parent, grandparent, grandchild, aunt, uncle, niece, nephew, or certain in-law relationships.

A child must have lived with you for over half of the tax year. Temporary absences, such as for education or medical care, are generally counted as periods of living with you. You must have provided more than half of the relative's total support during the tax year. The relative's gross income must be below a certain threshold determined annually by the IRS (subject to change). It's important to note that these are just general guidelines, and there may be additional rules and exceptions. The IRS provides detailed information in publications such as IRS Publication 501.

A Dependent must be;

- Under age 19 at the end of the tax year and younger than the taxpayer (or the taxpayer's spouse, if filing jointly) or
- A full-time student under the age of 24 at the end of the year and younger than the taxpayer (or spouse, if filing jointly) or
- Any age if permanently and totally disabled at any time during the year.

## **What happens in cases of divorce after filing 2020/2021 taxes?**

All customers who filed the 2020 and/or 2021 tax returns with a Married Filing Joint status are required by the IRS to have both Taxpayer and Spouses' signatures on the amended tax returns before acceptance. World Class Digital also requires both spouses to verify their identities. However, if you were married and filed as Head of Household or Married Filing Separate, only your signature is required on the amended return(s).

## **What does it mean to be self-employed?**

A self-employed person in the United States, as defined by the Internal Revenue Service (IRS), is generally considered someone to whom the following applies:

- You carry on a trade or business as a sole proprietor or an independent contractor.
- You are a member of a partnership that carries on a trade or business.
- You are otherwise in business for yourself (including a part-time business or a gig worker).

The World Class Digital platform is designed to assist sole proprietors, independent business owners, 1099 contractors, freelancers, gig workers, and single-member LLCs taxed as a sole proprietorship or Multi-Member LLCs taxed as a Partnership. We also work with individuals across all industries, including realtors, estheticians, hair stylists, taxi drivers, financial consultants, graphic designers, event staff, and construction workers.

## **Do I qualify for SETC tax credit if I already received unemployment benefits?**

You can still qualify for the SETC tax credit even if you received unemployment benefits. However, you cannot claim the days you received unemployment benefits as days you were not able to work due to COVID-19 related issues.

## **Can I claim SETC tax credits if I am also a W2 employee?**

You may still be eligible to claim SETC tax credits as long as you earned self-employment income in addition to your W2 salary during 2020 and/or 2021. If you are also a W2 employee and your employer filed for SETC credits on your behalf, you may not be able to utilize the World Class Digital platform.

If you receive paid leave benefits as an employee, it may affect the amount of tax credit you can claim as a self-employed individual under the SETC. You cannot claim a double benefit for the same period. However, if your situation as an employee doesn't provide full coverage, there might be potential to claim additional credits based on your self-employment income.

## **Do weekends count as days I can claim?**

Yes, if you missed self-employment work that you would have normally worked on a weekend, then you can claim weekends as days missed.



## **Can I use days I took care of a child other than my own child?**

Yes, you may qualify for taking care of a child other than your own under the "Caring for others" section of our portal.

## **What if my child's school moved to online instruction/classes? Is it considered "closed" for the purpose of the credit?**

Yes, if the physical location where your child received instruction or care was closed, the school or place of care is "closed" for purposes of paid sick leave and expanded family and medical leave. This is true even if your child is still expected or required to complete assignments.

## **Why do I have to have positive net earnings to qualify for SETC income tax credit?**

Positive net earnings are a requirement from the IRS to qualify for the SETC income tax credit. Positive net earnings indicate taxable income against which a credit can be applied. We understand the Covid-19 pandemic effected everyone globally. If you did not have positing earnings in 2020 because of Covid-19 restrictions, we may use your 2019 net income.

## **Form Questions**

### **What is a Form 1040?**

IRS Form 1040 is the standard individual income tax form in the United States, used by taxpayers to report their annual income and calculate their tax liability. To file for the SETC tax credits, World Class Digital will amend your previously filed IRS Form 1040.

### **What is a Form 1040X?**

IRS Form 1040X is used to amend your previously filed individual tax return. To file for the SETC tax credits, World Class Digital will amend your previously filed IRS Form 1040 by completing Form 1040-X.

### **What is a Schedule SE Form 1040?**

Schedule SE is a tax form self-employed individuals use to calculate the self-employment tax owed. This tax covers Social Security and Medicare taxes for individuals who work for themselves.

Although all businesses may qualify for the SETC tax credits, World Class Digital can only process self-employed individuals now. To be eligible for the SETC tax credit, a self-employed individual must have self-employment income listed on line 6 of Schedule SE (2020 and 2021) and line 4 of Schedule SE (2019).

## **What is a Schedule C?**

Schedule C is a tax form used by sole proprietors, single-member LLCs, and other self-employed individuals to report their business income and expenses. The form is filed as part of the individual's income tax return (Form 1040), and it helps calculate the net profit or loss from the business, which is then used to determine the individual's overall taxable income. Net income (line 31) from Schedule C calculates self-employment income on line 2 of Schedule SE (Form 1040).

This does not appear in the application. However, it is essential to know that Schedule C feeds into the overall self-employment income calculation on Schedule SE (Form 1040).

## **What is a Form 7202?**

IRS Form 7202 is a tax form used to claim the Families First Coronavirus Response Act (SETC) credits for self-employed individuals. This form must be completed to calculate the total amount of SETC credit self-employed individuals qualify for COVID-19-related reasons.

## **What is a Form 8821?**

IRS Form 8821 is the Tax Information Authorization form. Taxpayers use this form to authorize the release of their tax information to a third party, such as a tax professional, for a specified period. Once signed, Form 8821 allows World Class Digital to pull your required tax information to accurately calculate your SETC credit and amend the 2020 and/ or 2021 tax returns to file for your SETC tax credits. This form does not authorize the designee to represent the taxpayer before the IRS; it only allows World Class Digital to receive and inspect confidential tax information. If representation before the IRS is necessary, a separate form, such as Form 2848 (Power of Attorney and Declaration of Representative), would be required.