

Client Impact Event

Plans to Implement Coronavirus Paid Leave and Tax Credits

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The Treasury, IRS and Labor announce plans to implement Coronavirus-related paid leave for workers and tax credits.

The U.S. Treasury Department, Internal Revenue Service (IRS), and the U.S. Department of Labor (Labor) announced that small and midsize employers can begin taking advantage of two new refundable payroll tax credits, designed to immediately and fully reimburse them, dollar-for-dollar, for the cost of providing Coronavirus-related leave to their employees. This relief to employees and small and midsize businesses is provided under the Families First Coronavirus Response Act (Coronavirus Response Act), signed by President Trump on March 18, 2020.

The Coronavirus Response Act will help the United States combat and defeat COVID-19 by giving all American businesses with fewer than 500 employees funds to provide employees with paid leave, either for the employee's own health needs or to care for family members. The legislation will enable employers to keep their workers on their payrolls, while at the same time ensuring that workers are not forced to choose between their paychecks and the public health measures needed to combat the virus.

Paid Sick Leave for Workers

The Coronavirus Response Act provides that employees of eligible employers can receive two weeks (up to 80 hours) of paid sick leave at **100%** of the employee's pay where the employee is unable to work because the employee is quarantined, and/or experiencing COVID-19 symptoms, and seeking a medical diagnosis. An employee who is unable to work because of a need to care for an individual subject to quarantine, to care for a child whose school is closed or child care provider is unavailable for reasons related to COVID-19, and/or the employee is experiencing substantially similar conditions as specified by the U.S. Department of Health and Human Services can receive two weeks (up to 80 hours) of paid sick leave at 2/3 the employee's pay. An employee who is unable to work due to a need to care for a child whose school is closed, or child care provider is unavailable for reasons related to COVID-19, may in some instances receive up to an additional ten weeks of expanded paid family and medical leave at 2/3 the employee's pay.

Paid Sick Leave Credit

For an employee who is unable to work because of Coronavirus quarantine or self-quarantine or has Coronavirus symptoms and is seeking a medical diagnosis, eligible employers may receive a refundable sick leave credit for sick leave at the employee's regular rate of pay, up to \$511 per day and \$5,110 in the aggregate, for a total of 10 days.

For an employee who is caring for someone with Coronavirus, or is caring for a child because the child's school or child care facility is closed, or the child care provider is unavailable due to the Coronavirus, eligible employers may claim a credit for two-thirds of the employee's regular rate of pay, up to \$200 per day and \$2,000 in the aggregate, for up to 10 days. Eligible employers are entitled to an additional tax credit determined based on costs to maintain health insurance coverage for the eligible employee during the leave period.

Child Care Credit Leave

In addition to the sick leave credit, for an employee who is unable to work because of a need to care for a child whose school or child care facility is closed or whose child care provider is unavailable due to the Coronavirus, eligible employers may receive a refundable child care leave credit. This credit is equal to two-thirds of the employee's regular pay, capped at \$200 per day or \$10,000 in the aggregate. Up to 10 weeks of qualifying leave can be counted towards the child care leave credit. Eligible employers are entitled to an additional tax credit

determined based on costs to maintain health insurance coverage for the eligible employee during the leave period.

Prompt Payment for the Cost of Providing Leave

When employers pay their employees, they are required to withhold from their employees' paychecks federal income taxes and the employees' share of Social Security and Medicare taxes. The employers then are required to deposit these federal taxes, along with their share of Social Security and Medicare taxes, with the IRS and file quarterly payroll tax returns with the IRS.

Under guidance that will be released next week, eligible employers who pay qualifying sick or child care leave will be able to retain an amount of the payroll taxes equal to the amount of qualifying sick and child care leave that they paid, rather than deposit them with the IRS.

The payroll taxes that are available for retention include withheld federal income taxes, the employee share of Social Security and Medicare taxes, and the employer share of Social Security and Medicare taxes with respect to all employees.

If there are not sufficient payroll taxes to cover the cost of qualified sick and child care leave paid, employers will be able to file a request for an accelerated payment from the IRS. The IRS expects to process these requests in two weeks or less. The details of this new, expedited procedure will be announced next week.

Example

If an eligible employer paid \$5,000 in sick leave and is otherwise required to deposit \$8,000 in payroll taxes, including taxes withheld from all its employees, the employer could use up to \$5,000 of the \$8,000 of taxes it was going to deposit for making qualified leave payments. The employer would only be required under the law to deposit the remaining \$3,000 on its next regular deposit date.

Example

If an eligible employer paid \$10,000 in sick leave and was required to deposit \$8,000 in taxes, the employer could use the entire \$8,000 of taxes in order to make qualified leave payments and file a request for an accelerated credit for the remaining \$2,000.

Equivalent child care leave and sick leave credit amounts are available to self-employed individuals under similar circumstances. These credits will be claimed on their income tax return and will reduce estimated tax payments.

Small Business Exemption

Small businesses with fewer than 50 employees will be eligible for an exemption from the leave requirements relating to school closings or child care unavailability where the requirements would jeopardize the ability of the business to continue. The exemption will be available on the basis of simple and clear criteria that make it available in circumstances involving jeopardy to the viability of an employer's business as a going concern. Labor will provide emergency guidance and rulemaking to clearly articulate this standard.

Easing Compliance

Labor will be issuing a temporary non-enforcement policy that provides a period of time for employers to come into compliance with the Act. Under this policy, Labor will not bring an enforcement action against any employer for violations of the Coronavirus Response Act so long as the employer has acted reasonably and in good faith to comply with the Act. Labor will instead focus on compliance assistance during the 30-day period.

New Developments

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) provides emergency assistance and health care response for individuals, families and businesses as a result of the 2020 coronavirus (COVID-19) pandemic. The CARES Act includes amendments to Division G of the Families First Coronavirus Response Act (Coronavirus Response Act) to add provisions for the

advance refunding of payroll credits for paid sick and family leave. The amendments include the following changes:

- *Advance Refunding of Credits.* In anticipation of the payroll tax credits for paid sick and family leave, including the refundable portion, the credits may be advanced, according to forms and instructions provided by the Secretary, up to an amount calculated, subject to the limits, both calculated through the end of the most recent payroll period in the quarter.
- *Treatment of Deposits.* The Secretary of the Treasury (or the Secretary's delegate) shall waive any penalty under IRC §6656 for any failure to make a deposit of the tax imposed by IRC §3111(a) or IRC §3221(a) if the Secretary determines that such failure was due to the anticipation of the credit allowed under this section.

Client Application

Inform your clients that are employers with fewer than 500 employees and self-employed of the opportunity for refundable tax credits under the emergency relief for taxpayers impacted by COVID-19. There are two credits that taxpayers may qualify for: (1) paid sick leave credit and (2) child care leave credit. The tax credits are refundable credits against regular income tax and expire on December 31, 2020.

Client Profile

Small and midsize employers that may take advantage of two new refundable payroll tax credits under the Family First Coronavirus Response Act.

Effective Date

Eligible employers will be able to claim these credits based on qualifying leave they provide between the effective date and Dec. 31, 2020.