



## IRS Issues Guidance on Tax Credits for Coronavirus Paid Leave Under the Families First Coronavirus Response Act

Small and midsize employers may begin using two new refundable payroll tax credits to obtain reimbursement for the costs of providing coronavirus-related leave to their employees, the U.S. Department of Labor (DOL) and Internal Revenue Service (IRS) announced on March 20, 2020.

This relief is provided under the Families First Coronavirus Response Act (the Act), which was enacted on March 18, 2020. The Act provides funds for employers with fewer than 500 employees to provide paid leave, either for their employees' own health needs or to care for their family members. The Act aims to help employers keep workers on their payrolls while ensuring that workers are not forced to choose between their paychecks and the public health measures needed to combat the coronavirus (COVID-19).

### Highlights of the Families First Coronavirus Response Act

#### **Paid Leave Requirements**

The federal coronavirus relief law requires employers to provide paid sick and family leave for COVID-19-related reasons, including lack of child care.

#### **Employer Tax Credits**

Eligible employers may claim two tax credits based on the COVID-19-related paid leave that they provide between April 2 and Dec. 31, 2020.

#### **Small Business Exemption**

Employers with fewer than 50 employees may qualify for an exemption from paid child care leave requirements.

### Key Takeaways

#### **Paid Sick Leave for Workers**

- For COVID-19 related reasons, employees receive up to 80 hours of paid sick leave and expanded paid child care leave when employees' children's schools are closed or child care providers are unavailable.



## Complete Coverage

- Employers may receive 100% reimbursement for paid leave under the Act.
- Health insurance costs are also included in the credit.
- Employers face no payroll tax liability.
- Self-employed individuals may receive an equivalent credit.

## Fast Funds

- Reimbursement is intended to be quick and easy to obtain.
- An immediate dollar-for-dollar tax offset against payroll taxes will be provided.
- Where a refund is owed, the IRS intends to send the refund as quickly as possible.

## Small Business Protection

- Employers with fewer than 50 employees may be eligible for an exemption from the requirements to provide leave to care for a child whose school is closed, or because child care is unavailable in cases, if viability of their business is threatened.

## Easing Compliance

- Requirements subject to 30-day non-enforcement period for good faith compliance efforts.
- To take immediate advantage of the paid leave credits, businesses can retain and access funds that they would otherwise pay to the IRS in payroll taxes. If those amounts are not sufficient to cover the cost of paid leave, employers can seek an expedited advance from the IRS by submitting a streamlined claim form (which is expected to be released this week).

## Background

The Act provides paid sick leave and expanded family and medical leave for COVID-19 related reasons and creates the refundable paid sick leave credit and the paid child care leave credit for eligible employers. Eligible employers are businesses and tax-exempt organizations with fewer than 500 employees that are required to provide emergency paid sick leave and emergency paid family and medical leave under the Act. Eligible employers will be able to claim these credits based on qualifying leave they provide between the effective date and Dec. 31, 2020. Equivalent credits are available to self-employed individuals based on similar circumstances.



## **Paid Leave**

The 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 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, or if 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 two-thirds 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 10 weeks of expanded paid family and medical leave at two-thirds of 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 for whom 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 based on costs to maintain health insurance coverage for the eligible employee during the leave period.

## **Child Care Leave Credit**

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 (Form 941 series) with the IRS.

Under guidance expected to be released this 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 that amount 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 may 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 are expected to be announced this week.

### Examples

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.

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**

Employers with fewer than 50 employees may be eligible for an exemption from the leave requirements relating to school closings or child care unavailability where these requirements would jeopardize their businesses' ability to continue. This exemption will be available in circumstances involving jeopardy to the viability of an employer's business as a going concern. The DOL will provide emergency guidance and rulemaking to clearly articulate this standard.

### **Non-Enforcement Period**

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

### **More Information**

For more information about these credits and other relief, visit [Coronavirus Tax Relief](#) on IRS.gov.

### **Employer Action:**

**Employers should become familiar with their obligations to provide paid leave to employees under the Act and with the IRS' guidance regarding tax credits for reimbursement. Employers should also monitor the IRS' [Coronavirus Tax Relief](#) website for additional guidance, which is expected to be released in the near future, and:**

- **Closely monitor the CDC, WHO and state and local public health department websites for information on the status of the coronavirus; and**
- **Consider measures that can help prevent the spread of illness, such as allowing employees flexible work options like working from home.**

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