



New credits fund employers for Coronavirus-related paid leave

FS-2020-6, May 2020

The Families First Coronavirus Response Act provides [tax credits](#) to reimburse employers for the costs of providing paid sick leave and paid family and medical leave to employees unable to work because of the coronavirus (COVID-19). These credits are refundable. That means if the amount of the credit exceeds the amount of tax owed, the remainder is refunded to the business or organization.

The law is intended to allow employers to keep employees on their payrolls, while at the same time making sure employees aren't forced to choose between their paychecks and public health measures needed to combat COVID-19.

These credits are available to eligible employers beginning April 1, 2020, for qualifying leave they provide between April 1, 2020, and Dec. 31, 2020.

Covered employers

Eligible employers are businesses and tax-exempt organizations with fewer than 500 full-time and part-time employees within the United States or any U.S. territory or possession and that have to meet [employer paid leave requirements](#). The [Questions and Answers](#) and regulations issued by the U.S. Department of Labor have more information about the 500-employee threshold and the paid leave requirements.

The law allows equivalent credits for self-employed individuals in similar circumstances. For details, see specific provisions related to self-employed individuals in the [COVID-19-Related Tax Credits for Required Paid Leave Provided by Small and Midsize Businesses FAQs](#).

Paid sick leave requirement and credit

Employees of eligible employers who are unable to work or telework because they're quarantined or experiencing COVID-19 symptoms and seeking a medical diagnosis can receive up to 80 hours of paid sick leave. This pay is at their regular rate of pay or, if higher, the applicable minimum wage, up to \$511 per day and \$5,110 in total.

Employees can receive up to 80 hours of paid sick leave at 2/3 of their regular pay or, if higher, the applicable minimum wage, up to \$200 per day and \$2,000 in total. Employees can receive this benefit if they need to care for:

- an individual subject to quarantine,
- a child whose school or place of care is closed, or
- a child whose child-care provider is unavailable,

due to COVID-19 or because they're experiencing similar conditions as specified by the U.S. Department of Health and Human Services.

An employee is eligible for paid sick leave, regardless of length of employment.

The eligible employer is entitled to a fully refundable tax credit equal to the required paid sick leave wages. Eligible employers can also get an additional credit for the employer's share of Medicare tax imposed on the qualified sick leave wages and the cost of maintaining health insurance coverage for the employee during the sick leave period. The employer is not subject to the employer portion of Social Security tax on those wages.

Paid family and medical leave requirement and credit

In addition to the paid sick leave credit, an employee who is unable to work or telework because of a need to care for a child whose school or place of care is closed or whose child-care provider is unavailable due to COVID-19, is entitled to paid family and medical leave equal to 2/3 of the employee's regular pay, up to \$200 per day and \$10,000 in total. Up to 10 weeks of qualifying leave can be counted toward the paid family leave credit.

An employee qualifies for paid family and medical leave if they've been on an employer's payroll for 30 calendar days or more.

The eligible employer is entitled to a fully refundable tax credit equal to the required paid family leave wages. Eligible employers can also get an additional credit for the employer's share of Medicare tax imposed on those wages and its cost of maintaining health insurance coverage for the employee during the family leave period. The eligible employer isn't subject to the employer portion of Social Security tax on those wages.

Example. An employee's child-care provider is unavailable indefinitely due to the COVID-19 outbreak, leaving the employee unable to work or telework because of the need to care for their child. For up to the first 80 hours of any period of leave to care for their child, the employee is entitled to qualified sick leave wages, up to \$200 per day and \$2,000 in total. After that, the employee is entitled to qualified family leave wages for up to 10 weeks of additional leave needed, up to \$200 per day and \$10,000 in total.

How to claim the credits

Eligible employers report their total qualified leave wages and the related credits for each quarter on their federal employment tax return, usually Form 941, Employer's QUARTERLY Federal Tax Return. They can receive the benefit of the credits by reducing their federal employment tax deposits for that quarter by the amount of the qualified leave wages, allocable qualified health plan expenses, and the employer's share of Medicare tax on the wages. They'll account for the reduction in deposits due to the leave credits on the Form 941 they file at the end of the quarter. The IRS recently posted Frequently Asked Questions about the ability both to reduce deposits for the credits and to defer the deposit of all of the employer's portion of Social Security tax due before January 1, 2021 under a separate provision in the Coronavirus Aid, Relief, and Economic Security (CARES) Act.

If employers don't have enough federal employment taxes to cover the amount of the credits, after they have deferred deposits of employer Social Security taxes under the CARES Act as discussed in the [Frequently Asked Questions](#), they may request an advance payment of the credits from the IRS by submitting [Form 7200](#), Advance Payment of Employer Credits Due to COVID-19. They may fax their completed forms to 855-248-0552.

Examples: An eligible employer is entitled to a credit of \$5,000 for paying qualified sick leave wages and qualified family leave wages (and allocable health plan expenses) and is otherwise required to deposit \$8,000 in federal employment taxes withheld from all of its employees for wage payments made during the same quarter as the \$5,000 in qualified leave wages. The employer may keep up to \$5,000 of the \$8,000 of taxes it was going to deposit, and it [will not owe a penalty](#) for keeping the \$5,000. The eligible employer will claim the credit and reflect the reduced liability for the \$5,000 when it files Form 941.

An eligible employer is entitled to a credit of \$10,000 for paying qualified leave wages (and allocable qualified health plan expenses) and is otherwise required to deposit \$8,000 in federal employment taxes withheld from all of its employees on wage payments made during the same quarter. The employer can keep the entire \$8,000 of taxes that it was otherwise required to deposit without penalties as a portion of the credits it is otherwise entitled to claim on Form 941. The employer may file a request for an advance credit for the remaining \$2,000 by completing Form 7200.

Keep records to substantiate claims

Eligible employers claiming the credits must keep records and documentation supporting each employee's leave. The [COVID-19-Related Tax Credits for Required Paid Leave Provided by Small and Midsize Businesses FAQs](#) has more information about the documents needed to support the employee's leave and the employer's credit.

An employer should keep all employment tax records for at least four years.

The [Questions and Answers](#) issued by the U.S. Department of Labor have more information about the leave requirements.

More information:

[Coronavirus Tax Relief](#)

[IR-2020-57](#), Treasury, IRS and Labor announce plan to implement coronavirus-related paid leave for workers and tax credits for small and midsize businesses to swiftly recover the cost of providing coronavirus-related leave.