

IRS Announces Payroll Tax Credits to Offset Payroll Costs of COVID-19 Related Paid Leave

By John B. Waters

Under the Families First Coronavirus Response Act (“FFCRA”), signed by President Trump on March 18, 2020, employers with less than 500 employees (“Eligible Employers”) are generally required to provide up to 80 hours of paid sick leave to an employee for coronavirus-related care of the employee or their family members and additional 10 weeks of paid leave at two-thirds of the employee’s pay to care for their child due to a coronavirus-related school closing or child care unavailability. On March 20, 2020 the IRS and the U.S. Department of Labor jointly announced a refundable payroll tax credit in the form of an offset to payroll tax liability designed to immediately reimburse Eligible Employers for the cost of providing FFCRA mandated coronavirus-related paid leave to their employees.

Credit Amount and Offset Against Payroll Tax Liability

The credit equals 100% of the Eligible Employer’s cost of paid leave under the FFCRA. The credit will be in the form of a dollar-for-dollar offset against the Eligible Employer’s payroll taxes. If the cost of an Eligible Employer’s FFCRA related paid leave exceeds the payroll taxes due, the IRS states that such employer can seek an expedited advance from the IRS by submitting a streamlined claim form that it will make available. The IRS mentions that it expects to process these requests in two weeks or less.

Examples

The announcement contains the following examples to help illustrate the operation of these credits and refunds.

- 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.

Self-Employed Individuals Will Also Receive Credits

Self-employed individuals will be able to claim similar credits on their income tax returns which will reduce their estimated tax payments.

For additional information or assistance with the applicability and effect of this development, please contact any of the listed Roetzel attorneys.

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