

Tax Implications of The Families First Coronavirus Response Act

Clients and friends,

Much has been written about the paid sick leave that small businesses must provide to their employees. This is an important step to shore up the personal finances of these employees, and the economy in general. But, it will also significantly impact the cash flows of small businesses. We wish to take a moment to discuss the tax credits provisions of the bill that are meant to mitigate the impact on small businesses. But first, a quick review of the benefits to be paid to employees.

Paid Sick Leave

The act provides that employees of eligible employers can receive up to two weeks (80 hours) of paid sick leave at 100% of their normal pay where the employee is unable to work because of the employee is quarantined, experiencing COVID-19 symptoms, or seeking a medical diagnosis.

Paid Family Leave

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, can generally receive two weeks (up to 80 hours) of paid sick leave at 2/3 the employee's pay. In some instances employees may qualify for an additional ten weeks.

Employment Tax Credits

Employers required to pay either paid sick leave or paid family leave under the Act will be entitled to take a federal employment tax credit for the entire amount they pay employees as required by this Act. Note that this is an employment tax credit, not an income tax credit. It is also a refundable credit. Employers will receive a refund of any excess of the paid sick leave paid over their tax liability.

Specific guidance has not been released yet as far as how to adjust payroll tax deposits and what forms need to be filed. We anticipate that for most employers, the credit will be reported on their quarterly federal payroll tax return, Form 941. Employers should be able to reduce their employment tax deposits accordingly. If the employer credit is greater than the employment tax liability, the refund request will likely be handled via the Form 941.

Example, if an employer has \$5,000 of qualified paid leave, and a payroll liability of \$40,000. \$5,000 goes to the paid leave, leaving a payroll liability of \$35,000 to be paid by the business. On the other hand, if you have more paid leave than payroll liabilities, employers can request an accelerated payment from the IRS.

The credit cannot exceed the paid sick leave amounts required under the Act. Thus, the credit is not available to the extent that employer payments are either in excess of the requirements or if someone is ineligible for the paid sick leave payments.

We will continue to keep you informed as details emerge. Please contact us at 216.831.7171 if you have any questions.

Thank you and stay safe.