

EMPLOYER CALCULATIONS FOR FEDERAL COVID-19 PAYROLL TAX DEDUCTIONS

Businesses and tax-exempt organizations with fewer than 500 employees that are required to provide emergency paid sick and childcare leave through December 31, 2020, under the Families First Coronavirus Response Act (FFCRA) (H.R. 6201), can claim a refundable federal tax credit to recover 100% of those payments. The IRS also said that the cost of providing such leave can include the cost of continuing health care coverage during the federally mandated sick and childcare leave period.

[IRS Information Release \(IR\) 2020-57](#) (March 20, 2020) outlines the system that will promptly reimburse employers for the benefits required under the Act.

Source of Tax Credit Refunds

Employers can deduct the cost of providing such leave from their total federal tax deposit amount from **all** employees (not just from those who take the federally mandated leave). Specifically, employers can deduct the cost of providing such leave from: (1) federal income taxes withheld from all employees' pay; (2) the employees' share of Social Security and Medicare taxes; and (3) the employer's share of Social Security and Medicare taxes.

Self-Employed

Equivalent tax credits are available to self-employed individuals for federally mandated paid sick and childcare leave. But self-employed individuals will deduct their tax credits from their estimated tax payments or can claim a refund on their federal income tax return (i.e., their 2020 Form 1040).

As a result, employers (including self-employed individuals) will have more cash in-hand (by **not** remitting taxes that are otherwise due) to cover the cost of providing the federal paid sick and childcare leave.

Rapid Refunds

If the payroll tax off-set is not enough to cover 100% of those costs, employers can request a refund of their tax credit for any remaining amount. The IRS expects to process such refunds within two weeks.

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Qualifying Reasons for Employee Leave

Under the FFCRA, an employee qualifies for paid sick time if the employee is unable to work (or unable to telework) due to a need for leave because the employee:

1. is subject to a Federal, State, or local quarantine or isolation order related to COVID-19;
2. has been advised by a health care provider to self-quarantine related to COVID-19;
3. is experiencing COVID-19 symptoms and is seeking a medical diagnosis;
4. is caring for an individual subject to an order described in (1) or self-quarantine as described in (2);
5. is caring for a child whose school or place of care is closed (or childcare provider is unavailable) for reasons related to COVID-19; or
6. is experiencing any other substantially-similar condition specified by the Secretary of Health and Human Services, in consultation with the Secretaries of Labor and Treasury.

Calculation of Pay Based on Reason for Leave

- ▶ For leave reasons (1), (2), or (3): employees taking leave are entitled to pay at either their regular rate or the applicable minimum wage, whichever is higher, up to \$511 per day and \$5,110 in the aggregate (over a two-week period).
- ▶ For leave reasons (4) or (6): employees taking leave are entitled to pay at 2/3 their regular rate or 2/3 the applicable minimum wage, whichever is higher, up to \$200 per day and \$2,000 in the aggregate (over a two-week period).
- ▶ For leave reason (5): employees taking leave are entitled to pay at 2/3 their regular rate or 2/3 the applicable minimum wage, whichever is higher, up to \$200 per day and \$12,000 in the aggregate (over a 12-week period).

If you have any questions or would like guidance for your specific situation, please contact Terry Bush, SPHR, or Adam Schwelnus, CPA, CGMA, using the contact information shown below. Additional insights related to the business impact of COVID-19 can be found on our website at www.klcpas.com/covid-19-updates-and-resources.

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