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Tax Credits for Coronavirus-Related Paid Leaves

On March 20, 2020, the U.S. Treasury Department, IRS and Department of Labor announced that small and midsize employers can begin taking advantage of two new payroll tax credits, designed to “immediately” and fully reimburse them, dollar-for-dollar, for the cost of providing Coronavirus-related FMLA leave and/or paid sick leave to their employees. These credits are provided under the Families First Coronavirus Response Act (Act), signed by President Trump on March 18, 2020, and effective from April 1, 2020 to December 31, 2020.

Employers will receive 100% reimbursement for paid leave pursuant to the Act.

- Health insurance costs are also included in the credit.
- Employers may face no payroll tax liability.
- Self-employed individuals receive an equivalent credit.

Reimbursement will be quick and easy to obtain.

- A dollar-for-dollar tax offset against quarterly payroll taxes may be taken.
- Where a refund is owed, the IRS will send the refund as quickly as possible.

In taking advantage of the paid leave tax credits, businesses can retain the funds that they would otherwise pay to the IRS in quarterly 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 that will be released next week. Also, under the guidance that is supposed to be released next week, eligible employers who pay qualifying sick or child care leave will be able to take a credit against quarterly payroll taxes an amount of the payroll taxes equal to the amount of qualifying sick and child care leave that they paid, rather than deposit them with the IRS as follows:

For an employee who is unable to work because of a Coronavirus quarantine or self-quarantine, or who has Coronavirus symptoms and is seeking a medical diagnosis, eligible employers may take a sick leave credit equal to 100% of 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 who is caring for a child because the child's school or child care facility is closed due to Coronavirus related issues, or if the child care provider is unavailable due to Coronavirus issues, 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.

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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.

What This Means for Employers:

This legislation is intended to enable employers to keep their workers on the payroll, while at the same time ensuring that workers are not forced to choose between their paychecks and the measures needed to combat coronavirus. Contact Barsamian & Moody or your tax professional if you have questions regarding how your business can recover the costs of providing emergency coronavirus-related leave to employees.

The goal of this article is to provide employers with current labor and employment law information. The contents should neither be interpreted as, nor construed as legal advice or opinion. The reader should consult with Barsamian & Moody at (559) 248-2360 for individual responses to questions or concerns regarding any given situation.