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How Do Payroll Tax Credits For COVID-19 Payments Work?

Payroll tax credits available for paid sick and family medical leave associated with the coronavirus pandemic have been addressed in a previous [JPS article](#). Since then, the Department of Labor and the IRS have provided additional guidance. JPS has also had the opportunity to work with businesses that are making these payments to employees and provides the following guidance to ensure credits are properly claimed. The Families First Coronavirus Response Act (FFCRA) is one of three legislative packages enacted to provide relief to due COVID-19.

The federal payroll tax credits are available to fully reimburse employers for payments required to be made under the FFCRA. An employer must receive a written request for FFCRA leave from the employee that includes the employee's name, a statement describing the COVID-19 related reason for requesting leave (along with written support), and that they are unable to work because of this reason. Specific additional documentation is required depending on the nature of the leave request.

Also, to support the tax credits, the IRS says employers "must retain records and documentation related to and supporting each employee's leave to substantiate the claim for the credits, as well retaining the Forms 941...". You should be able to document how much you pay an employee based on their established hourly rate or salary and the amount of time for which these payments are required under the FFCRA. Some companies might find it helpful to use a separate expense account to capture these payments to document their compliance with the FFCRA and to aid in securing the payroll tax credits.

The rules for handling the payroll taxes associated with the FFCRA payments and the accompanying credits are as follows:

- You must withhold the full amount of the FICA tax (both the Social Security and the Medicare portions) from emergency sick leave and emergency FMLA payments.
- You are not subject to the employer portion of Social Security tax normally imposed on those wages.
- You still must make the matching Medicare contribution on these wages (but see available credits below).
- The credits provide immediate dollar-for-dollar offset against payroll taxes simply by reducing the amount you remit to the IRS. Specifically, you can reduce the amount you remit from withheld federal income taxes, the employee's share of Social Security and Medicare taxes, and the employer's share of Social Security and Medicare taxes. You can consider the amount of these taxes attributed to all employee wages, not just these FFCRA wages.
- In addition to the amount paid to the employee, you can also claim a credit for the amount paid to continue coverage under a qualified health plan for this employee along with your share of Medicare tax on the qualified leave wages. This amount simply gets added to the FFCRA payments to determine how much of the payroll taxes you can retain, as detailed above.
- Since the requirement to make FFCRA payments did not go into effect until April 1, the associated credits will be reported starting with the 2nd quarter Form 941. We expect the IRS will revise Form 941 to reflect these credits, so it is important to track the reductions you make.
- If the reductions to the amounts you remit to the IRS are not enough to fully recover the costs incurred, you can request a refund from the IRS using Form 7200.

All this can be confusing, so here is a summary of the steps to take these credits:

1. Sum the following items for a given pay period:
 - a. Gross wages paid for emergency sick pay or paid childcare leave.
 - b. Employer Medicare match on these wages. Remember, you are not required to compute or pay the employer's share of Social Security tax on these wages. This may require a manual adjustment in your payroll system.
 - c. Allocable portion of employer's group health benefit costs for the affected employees.
2. Take your total Federal tax deposit for this pay period (for all employees) and subtract the above sum. The net is the revised federal tax deposit you should make. If for some reason the tax deposit is not high enough, report the shortfall on Form 7200.
3. When making the tax deposit, you are required to specify the amount of each federal tax type that you are remitting (income tax withholding, Social Security and Medicare). It does not matter which of those tax types you reduce in order to claim this credit, but it will likely be simplest to pick a tax type that is large enough to absorb the full amount.
4. Maintain a schedule showing the amount of each of the items in #1 above, the pay period they relate to and which tax type you used to claim the credit.
5. When filing your quarterly payroll tax returns, starting with the 2nd quarter of 2020, you will need to report the reduction you made. We do not yet know exactly what the revised 941 will request, so good documentation is key.

JPS will continue to monitor guidance and provide additional information as it becomes available.

To read other JPS COVID-related articles [CLICK HERE](#).

Stay updated with JPS. And, as always, feel free to contact our JPS team to assist you.

www.jpspa.com

Asheville
828-254-2374

Boone
828-262-0997

Marion
828-652-7044

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