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3/23/20

The IRS Releases Clarification on the “Payroll Tax Credit” and What it Means to You

The President of the United States, along with the bi-partisan Congress, needs to be commended on the drafting, negotiation and the fast turnaround of HR-6201 the Families First Coronavirus Response Act. This important legislation expands the coverage of FMLA to those affected, either directly or indirectly, by COVID-19 and ensures that income and benefits remain in place for qualifying Americans.

Over the past 72 hours there has been an abundance of information and interpretation on the expansion and benefits of the law, yet very little has been provided as to how the “mechanics” of the law will actually work.

Of utmost concern is the requirement for employers to continue to pay wages to the covered employees for a period up to 12 weeks. The law does provide for employers to recover these monies through the “Tax Credit”. However, when examined closely, the language required further clarification and adjustment. Therefore, over the past few days payroll professionals and tax practitioners have worked tirelessly alongside the IRS and Treasury to ensure that the process for reimbursement is manageable and effective.

Here is how the “Tax Credit” will work.

Form 941

Even prior to the new law, all employers were mandated to deduct Federal Income Tax as well as the employee’s portion of Social Security and Medicare taxes from the wages they pay their employees. In addition, employers are also required to match the Social Security and Medicare tax with an “employer contribution” and, together, these taxes are deposited and reported to the IRS using [Form 941](#).

Repayment of Wages and Benefits - “Tax Credit”

When an eligible employee receives compensation from the employer (on behalf of the federal government), the employer can seek immediate reimbursement. This is achieved by retaining an amount of payroll taxes equal to the amount of qualifying sick and child care leave (wages) paid to the employee(s) rather than deposit them with the IRS and seek reimbursement at a later date or at the end of the quarter when the Form 941 is filed.

The payroll taxes that are available for retention include: withheld federal income taxes, both the employee's and employer's share of Social Security and Medicare taxes, in respect to all employees.

Furthermore, if at any time the retained taxes are not enough to cover the employer's out of pocket costs to cover the wages and benefits paid, employers will be able to file a request and an accelerated payment from the IRS. The IRS expects to process these requests within a period of two weeks from filing.

Examples of the "Tax Credit" Calculation

Example 1

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. Under the law, the employer would then only be required to deposit the remaining \$3,000 on the next regular Form 941 deposit date.

Example 2

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), or defer the request to the next quarterly filing of the Form 941, at which time they would file for a "refund."

Example 3

Similarly, the law provides for equivalent childcare and sick leave credit amounts to self-employed individuals under these same circumstances. These credits will be claimed via their individual income tax return.

You Are Not Alone

At first glance, all of this seems complicated. If required, or you are feeling overwhelmed, you should seek help from a tax professional. If you are using a national payroll provider, they no doubt are preparing for the April 2, 2020 enactment date and should be able to advise and assist you to maintain the appropriate records for compliance purposes.

To all our simplicityHR by ALTRES customers - you can rest assured that we will be administering all the requirements of these changing laws in order to minimize the financial hardship and emotional stress that it could cause for you and your business.

Our team is engaged hourly with our contacts at the IRS, and on the hill in D.C., to ensure we keep current on the fluid requirements of the law. For more information on the law directly reported by the IRS on March 20, 2020. <https://www.irs.gov/newsroom/treasury-irs-and-labor-announce-plan-to-implement-coronavirus-related-paid-leave-for-workers-and-tax-credits-for-small-and-midsize-businesses-to-swiftly-recover-the-cost-of-providing-coronavirus>

If you would like to follow and receive up to date information, news and resources please follow our frequently updated COVID-19 Resource Center at

<https://www.simplicityhr.com/covid-19/>