

Arrow Point Tax Services

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- **Covid Paid Sick and Family Leave Tax Credit** – Benefit; allows business owners who paid qualified sick and family leave to themselves and employees from 04/01/2021 – 09/30/2021 to receive a fully refundable tax credit for wages, Social Security taxes, Medicare taxes, and a few other defined expenses
 - Part of the American Rescue Plan of 2021
 - Provides eligible employers with tax credits to cover costs of paid sick and family leave related to Covid-19 from 04/01/2021 – 09/30/2021
 - Definitions of eligible qualified sick leave
 - Employee is under a Federal, State or local quarantine order related to Covid 19 or has been advised by a health care provider to self-quarantine due to medical concerns
 - Employee has Covid symptoms and is seeking a medical diagnosis
 - Employee is seeking or awaiting Covid test results
 - Employee has been exposed to Covid 19 and employer has requested a test
 - **Employee is obtaining a vaccine or recovering from conditions which were onset by the vaccine**
 - Definitions of eligible qualified family sick leave
 - Employee is caring for an individual subject to any of the above qualified sick leave
 - Employee is caring for a child whose school or place of care is closed or unavailable due to Covid 19 precautions
 - Employee is accompanying or caring for an individual obtaining or recovering from a vaccine
 - **Eligible qualified expenses paid during any of the above conditions**
 - Wages
 - Employers share of Medicare and Social Security taxes paid
 - Qualified healthcare expenses
 - Expenses incurred to maintain a group health plan as defined by IRC Section 5000(b)(1)
 - Collective bargaining expenses
 - Defined benefit plan contributions and collectively bargained apprenticeship program contributions

- **If did not pay employees for the time off, may pay them “makeup” pay and then apply for the tax credit in the quarter the payment was made**
 - May pay wages after 09/30/21 as long as the wages are to make up for eligible time off during the 04/01/2021-09/30/201 period
- Employers may request the credit for up to 10 days (80 hours) per employee based on the below restrictions
 - Capped to the lesser of \$511/day or 100% of the “average daily” self-employed income – when they themselves are sick or on family leave
 - Capped to lesser of \$200/day or 67% of the “average daily” self-employed income – when caring for another
 - Under both instances, may not take more than 10 “eligible” days
 - So most available is \$5,110 if all days are individual and least is \$2,000 if all days are caring for a family member
- Business owners themselves qualify for the tax credit whether passthrough businesses or sole proprietorships
 - *DK Comment: Before business owners make this election they should consult their tax professional*
- Calculating the “average daily” self employed income
 - Average daily self-employment income is an amount equal to the net earnings from self-employment for the taxable year, or prior taxable year, divided by 260
 - Net earnings from self-employment are based on the gross income derived from the business minus expenses
 - *DK Comment: If your business makes more in net profits than \$138,860 take the capped \$511/ day*
- **Must keep some basic records of what the pay was for and how it was calculated**
 - Employee name
 - Dates of sick leave
 - A statement of the Covid 19 related reason the employee is requesting leave
 - If telework is an option, why that would not be possible
 - Any calculations on how collective bargaining or healthcare expenses were calculated
 - IRS FAQ states should keep these records for six years
- May use IRS Form 7200 to apply for an advanced payment of employer credits
- If missed submitting before quarterly payroll taxes were filed, may amend, and resubmit via 941X, or may account for it in current quarter
- Must have fewer than 500 employees to qualify for this credit
- The business loses the deduction for the qualified expenses, but in turn receives a fully refundable tax credit which more than covers for it

- IRC Section 6402(a) and 6413(b) of the Code apply here
- IRC Section 6656 (Penalty for not depositing payroll taxes) does not apply for this time period
- <https://www.irs.gov/pub/irs-drop/n-21-24.pdf>