

IRS Issues More Guidance on Tax Credits for Paid Leave for COVID-19 Vaccinations

April 2021

The Treasury Department and the Internal Revenue Service (IRS) recently issued a fact sheet with additional details describing the refundable tax credit that is available to employers with fewer than 500 employees for sick and family leave paid to employees who take leave to receive or recover from COVID-19 vaccinations. The tax credit applies to amounts paid for leaves taken from April 1, 2021, through September 30, 2021.

Background

The American Rescue Plan Act of 2021 (ARPA) allows employers with fewer than 500 employees and certain governmental employers to claim refundable tax credits that reimburse them for the cost of providing paid sick and family leave to their employees due to COVID-19, including leave taken by employees to receive or recover from COVID-19 vaccinations.

Eligible Employers

Eligible employers may receive tax credits for wages paid for leave that employees take to receive the COVID-19 vaccine or to recover from the vaccine's side effects. Employers who are eligible to receive such tax credits are defined as any employer (including tax-exempt organizations) with less than 500 employees. Eligible employers also include non-federal governmental employers. The tax credits are available for wages paid for leave from April 1 through September 30, 2021.

Amount of Tax Credits

The maximum amount of tax credits available for sick leave wages is limited to \$511 per day and \$5,110 in the aggregate. The maximum amount of tax credits for paid family leave wages is limited to \$200 per day and \$12,000 in the aggregate. The amount of these tax credits is increased by allocable health plan expenses and contributions for certain collectively bargained benefits, as well as the employer's share of Social Security and Medicare taxes paid on the wages (up to the respective daily and total caps).

Calculation of Tax Credits

The tax credits, which are applied against the employer's share of the Medicare tax, are refundable, which means the employer is entitled to payment of the full amount of the tax credits if it exceeds the employer's share of the Medicare tax.

Claiming Tax Credits

Eligible employers generally use Form 941 to report their total paid sick and family leave wages (plus the eligible health plan expenses and collectively bargained contributions as well as the eligible employer's share of Social Security and Medicare taxes on the paid leave wages) for each quarter.

The IRS confirmed in its fact sheet that eligible employers can retain the federal employment taxes that they otherwise would have deposited, including federal income withheld from employees, the employee's share of Social Security and Medicare taxes, and the eligible employer's share of Social Security and Medicare taxes with respect to all employees up to the amount of tax credits for which they are eligible. The [instructions](#) for Form 941 provide directions on reflecting the reduced liabilities for the quarter being reported. The IRS also noted that if an eligible employer does not have enough federal employment taxes to cover amounts provided as paid sick and family leave wages, the eligible employer may request an advance of the tax credits by filing [Form 7200](#).

Resources

The IRS's fact sheet can be accessed [here](#).

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