

## COVID-19: Payroll tax credits and other measures for employers

As one of the worst-hit economies during COVID-19, the United States of America (USA) has taken various steps to fast-track recovery. Forced closure of businesses due to lockdowns has not only disrupted supply chains, but driven many businesses on the road to end leading to significant job cuts.

The US government is taking various steps to help businesses avoid job cuts. As a part of this, the US Congress has passed a massive stimulus bill that offers major tax reliefs to both businesses and individuals, provides for hundreds of billions in new spending, expanding unemployment insurance and providing a cash handout to low and middle-income Americans. This is expected to sustain laid off workers until the economy starts to show initial signs of recovery.

**Here's how you can HALT and consider the following payroll tax credits to improve liquidity position of your business and avoid job cuts.**



### Emergency Paid Sick Leave Act (EPSLA)

Employers with fewer than 500 employees are required to provide up to 80 hours of paid sick leave to both full- and part-time employees (at employees' regular rate and regardless of her/his duration of employment prior to leave) who need time-off for any of the below mentioned reasons:

- The employee is under a Federal, State or local quarantine or isolation order related to COVID-19
- Has been advised by a healthcare provider to self-quarantine due to concerns related to COVID-19
- Experiencing symptoms of COVID-19 and undergoing a medical diagnosis
- Caring for an individual who is subject to a Federal, State, or local quarantine or isolation order related to COVID-19 or has been advised by a healthcare provider to self-quarantine due to concerns related to the disease
- Experiencing any other substantially similar condition specified by the US Department of Health and Human Services



### How much can an eligible employer claim?

Employees can be paid sick leave wages up to 10 days at their regular wages (limited to a maximum of USD 511 per day) for their own use or two-thirds of their wages (limited to a maximum of USD 200 per day) to care for others.

The payments for EPSLA leave and benefit costs during period of leave under the Families First Coronavirus Response Act (FFCRA) are subject to tax credits. Each quarter, employers are entitled to a refundable tax credit equal to 100% of the qualified EPSLA leave wages paid to eligible employees.



### Emergency Family and Medical Leave Expansion Act (EFMLEA)

Under Emergency Family and Medical Leave Expansion Act, any individual employed by eligible employers (having fewer than 500 employees) for at least 30 days (before the first day of leave) may take up to 12 weeks of job-protected leave to allow an employee, who is unable to work or telework, to care for her/his child (under 18 years of age) if:

- The child's school or place of care is closed or
- The childcare provider is unavailable due to a public health emergency



### How much can an eligible employer claim?

Under the EFMLEA, the first two weeks remain unpaid, but for the next 10 weeks, eligible employees will receive two-thirds of the pay while on leave. The new Act limits this pay entitlement to USD 200 per day and USD 10,000 in the aggregate per employee. If an employee has any paid personal, sick, medical or sick days, they can use those paid leave days during the 14 days of unpaid leave under the EFMLEA.

The payments for EFMLEA leave and benefit costs during periods of leave under the FFCRA are subject to tax credits. Each quarter, employers are entitled to a refundable tax credit equal to 100% of the qualified EFMLEA leave wages paid to eligible employees.

**Tax credits under the EPSLA and EFMLEA are only available for wages paid from 1 April 2020 to 31 December 2020**



### Emergency retention credit for employers – subject to closure due to COVID-19

The credit is available to all employers regardless of size, including tax-exempt organisations. Qualifying employers must fall into one of the two categories, calculated in each calendar quarter:

- The employer’s business is fully or partially suspended by the government order due to COVID-19 during the calendar quarter; or
- The employer’s gross receipts are below 50% of the comparable quarter in 2019. Once the employer’s gross receipts go above 80% of a comparable quarter in 2019, they no longer qualify after the end of that quarter.



### How much can an eligible employer claim?

The amount of the credit is 50% of qualifying wages paid up to USD 10,000 in total. Wages paid after 12 March 2020, and before 1 January 2021, are eligible for the credit. Wages considered are not limited to cash payments, but also include a portion of the cost of employer provided healthcare. Qualifying wages are based on the average number of business employees in 2019.

- **Employers with fewer than 100 employees**  
If the employer had 100 or fewer employees on an average in 2019, the credit is based on wages paid to all employees, regardless if they worked or not. If employees worked full-time and were paid for full-time work, the employer still receives the credit.



- **Employers with more than 100 employees**  
If the employer had more than 100 employees on an average in 2019, then the credit is allowed only for wages paid to employees who did not work during the calendar quarter.

**Employee retention credit is not available to an employer who avails a Paycheck Protection Program loan**



### How to claim tax credits?

The process for claiming the sick leave, family leave and employee retention credits is the same.



### Claim on employment tax returns

Employers will need to report their qualifying leave wages and qualifying wages for the retention credit on their quarterly employment tax return and claim the relevant tax credits.



### Form 7200C - Advance of Employer Credits Due to COVID-19

If the tax credits exceed the amount of employment taxes to be deposited by the employer, in this case, the employer may request an advance of the credits by completing Form 7200 - Advance Payment of Employer Credits Due to COVID-19. The eligible employer will account for the amounts received as an advance when it files its Form 941 - Employer’s Quarterly Federal Tax Return - for the relevant quarter.

Eligible employers must retain records and documentation related to and supporting each employee’s leave to substantiate the claim for the credits, as well as retaining the Forms 941 - Employer’s Quarterly Federal Tax Return, and Form 7200 - Advance of Employer Credits Due to COVID-19.



## Delay in payment of Social Security Taxes

This benefit is available to all employers regardless of size. The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) will allow all employers to defer payment by 6.2% of employer's portion of Social Security Tax payable from 27 March, 2020 till 31 December, 2020.

Deferred tax amounts would be paid in equal instalments over two years by the following dates ("applicable dates")

- 50% on 31 December 2021, and
- 50% on 31 December 2022.

Employers who avail an SBA Payment Protection Program loan may defer payment of the Social Security Taxes until the date they receive an approval from the lender for forgiveness of the loan. No deferral is permitted post this date. However, the amount deferred prior to such date will still be due only on the applicable dates mentioned above.

**Grant Thornton's US Tax team** can help companies analyse the most beneficial incentive available for their US entity under stimulus package to meet their liquidity challenges during these uncertain times.



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**Click here to download the recently released Grant Thornton Halt-Plan-Refresh Guide on revisiting business priorities and plans**



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