PAYDATA
WORKFORCE SOLUTIONS

Revised 4/8/20

COVID-19 Leave & Tax Credit FAQ

1) I would like to defer or stop paying the employer tax (social security).

Thank you for your inquiry. As you can imagine, PayData has seen an influx of questions regarding the new Federal programs released in response to the COVID-19 pandemic. There is still much that has not been clarified by the Federal Agencies that could have an impact on your business outside of payroll.

We recommend discussing questions with your CPA and/or tax accountant. Once the IRS has released more information and guidelines regarding how to apply these programs, we will work with our development team to implement and honor your requests.

Please visit our website for up to date information: https://www.paydata.com/covid19/

Thank you for your patience and understanding,

2) How do we get the tax credits from the COVID Sick / Family Leave Pay / Family's First Corona Response Act (FFCRA)? If you haven't already done so, please click here to add these codes to your account.

The tax credit generated from paying employees under the COVID Sick codes will be applied against the taxes due from your regular wages. If your credit exceeds the amount of taxes due for that payroll, you will have an outstanding credit due to you.

If you would like to apply for that credit to be refunded immediately, please contact your CPA or Tax Accountant regarding Form 7200, as PayData does not file this on your behalf. https://www.irs.gov/forms-pubs/about-form-7200

The IRS has yet to release the latest version of the Form 941 which will take into account the FFCRA credits. If you did not file Form 7200 and the FFCRA credits were more than the total taxes due, we anticipate the 941 showing these credits as a refund due. PayData generates the 941 return on a quarterly basis; any overpayments reported are refunded directly to the client from the IRS.

3) How do I get and apply the tax credit for health insurance expenses when we are paying employees COVID Sick or COVID Family Leave?

We hope that you understand that PayData cannot offer tax advance and recommends discussing this with your CPA and/or Tax Accountant before proceeding.

According to the IRS:

The amount of qualified health plan expenses taken into account in determining the credits generally includes both the portion of the cost paid by the Eligible Employer and the portion of the cost paid by the employee with pre-tax salary reduction contributions. However, the qualified health plan expenses should not include amounts that the employee paid for with after-tax contributions and are pro rata. **The IRS also provides instructions on how to calculate health plan expenses under the COVID-19 (PayData Code Type EC6):**

https://www.irs.gov/newsroom/covid-19-related-tax-credits-for-required-paid-leave-provided-by-small-and-midsize-businesses-faqs

Section 33 - An Eligible Employer who sponsors a fully-insured group health plan may use any reasonable method to determine and allocate the plan expenses, including (1) the COBRA applicable premium for the employee typically available from the insurer, (2) one average premium rate for all employees, or (3) a substantially similar method that takes into account the average premium rate determined separately for employees with self-only and other than self-only coverage.

If an Eligible Employer chooses to use one average premium rate for all employees, the allocable amount for each day an employee covered by the insured group health plan is entitled to qualified leave wages could be determined using the following steps:

1. The Eligible Employer's overall annual premium for the employees covered by the policy is divided by the number of employees covered by the policy to determine the average annual premium per employee.
2. The average annual premium per employee is divided by the average number of work days during the year by all covered employees (treating days of paid leave as a work day and a work day as including any day on which work is performed) to determine the average daily premium per employee. For example, a full-year employee working five days per week may be treated as working 52 weeks x 5 days or 260 days. Calculations for part-time and seasonal employees who participate in the plan should be adjusted as appropriate. Eligible Employers may use any reasonable method for calculating part-time employee workdays.
3. The resulting amount is the amount allocated to each day of qualified sick or family leave wages.

Example: An Eligible Employer sponsors an insured group health plan that covers 400 employees, some with self-only coverage and some with family coverage. Each employee is expected to have 260 workdays a year. (Five days a week for 52 weeks.) The employees contribute a portion of their premium by pre-tax salary reduction, with different amounts for self-only and family. The total annual premium for the 400 employees is $5.2 million. (This includes both the amount paid by the Eligible Employer and the amounts paid by employees through salary reduction.)

For an Eligible Employer using one average premium rate for all employees, the average annual premium rate is $5.2 million divided by 400, or $13,000. For each employee expected to have 260 workdays a year, this results in a daily average premium rate equal to $13,000 divided by 260, or $50. That $50 is the amount of qualified health expenses allocated to each day of paid sick or family leave per employee.