Bolton
Insight

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Legal Update: IRS Updates FAQs on Employer Tax Credits for FFCRA Leave

On Jan. 29, 2021, the IRS updated its frequently asked questions (FAQs) on tax credits available to employers for providing paid employee leave under the Families First Coronavirus Response Act (FFCRA). While the leave requirements of the FFCRA expired on Dec. 31, 2020, the law's tax credits were extended for employers that voluntarily provide FFCRA leave to employees through March 31, 2021. The FAQ updates address this extension.

FFCRA Leave Provisions

The FFCRA, enacted on March 18, 2020, required employers with fewer than 500 employees to provide employees 80 hours of emergency paid sick leave and 10 weeks of expanded paid family leave for specified COVID-19-related reasons. These leave requirements expired on Dec. 31, 2020.

FFCRA Tax Credits

The FFCRA provided tax credits for employers to cover certain costs of the employee leave required by the law. While the leave requirements themselves were not continued after the FFCRA's Dec. 31, 2020, sunset date, the Consolidated Appropriations Act, 2021 (CAA) extended the tax credits for employers that choose to offer leave that would have qualified under the FFCRA through March 31, 2021.

The tax credits are available to cover qualified paid sick leave and paid family leave wages, qualified health plan expenses allocable to employee leave wages, and the employer's share of Medicare tax related to the qualified wages. Tax credits are also available for self-employed individuals.

Eligible employers may claim the credits on their federal employment tax returns (e.g., Form 941, Employer's Quarterly Federal Tax Return), but they can benefit more quickly from the credits by reducing their federal employment tax deposits.