

Small and midsize employers may be entitled to tax credits for providing paid leave related to COVID-19 vaccinations



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On March 11, 2021, President Joe Biden signed into law the \$1.9 trillion U.S. coronavirus relief package, the American Rescue Plan Act of 2021 (ARPA). The ARPA allows small and midsize employers, 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. This includes leave taken by employees to receive or recover from COVID-19 vaccinations.

The IRS and the Treasury Department released a [fact sheet](#) on April 21, 2021, which provides further details regarding these tax credits.

Eligible employers

An eligible employer for purposes of the tax credits is any business, including a tax-exempt organization, with fewer than 500 employees. This includes a governmental employer, other than the federal government and any agency or instrumentality of the federal government that is not an organization described in section 501(c)(1) of the Internal Revenue Code.

Paid leave for which tax credits can be claimed

Eligible employers are entitled to tax credits for wages paid for leave taken by employees who are not able to work due to reasons related to COVID-19. This includes leave taken to receive COVID-19 vaccinations or

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to recover from any complications related to the vaccinations. The tax credits are available for wages paid for leave from April 1, 2021, through September 30, 2021. Self-employed individuals are eligible for similar tax credits.

The amount of the tax credits and how they are calculated

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

The tax credit for paid sick leave wages is equal to the sick leave wages paid for COVID-19 related reasons for up to two weeks (80 hours), limited to \$511 per day and \$5,110 in the aggregate, at 100 percent of the employee's regular rate of pay. The tax credit for paid family leave wages is equal to the family leave wages paid for up to twelve weeks, limited to \$200 per day and \$12,000 in the aggregate, at 2/3rds of the employee's regular rate of pay.

The tax credits are designed to fully offset the cost of giving employees paid time off to get vaccinated and recover from any potential side effects. The amount of the tax credits will be 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).

Claiming the credit

Eligible employers report their total paid sick and family leave wages (plus any other permitted costs) for each quarter on their federal employment tax return.

In anticipation of claiming the credits, eligible employers can retain the federal employment taxes that they otherwise would have deposited with respect to all employees up to the amount of credit for which they are eligible.

If an eligible employer does not have enough federal employment taxes set aside for deposit to cover amounts provided as paid sick and family leave wages (plus other eligible expenses), the employer may request an advance of the credits by filing 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 federal employment tax return, for the relevant quarter.

Self-employed individuals may claim comparable tax credits on their individual income tax return.

Conclusion

Employers should consider the implications of the tax credits discussed above and consult with a tax professional to determine whether they qualify. The tax benefits can be significant for those that qualify given that most employees will be vaccinated.



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