

# Form 941 Explanation Guide - Third Quarter 2021

During the COVID-19 pandemic, the Families First Coronavirus Response Act (FFCRA) and the Coronavirus Aid, Relief, and Economic Security (CARES) Act both provide refundable tax credits for qualifying wages. The American Rescue Plan Act extended these credits (with a few modifications) and are on the updated [Form 941](#) (rev date June 2021) as follows:

- Employee Retention Tax Credit (ERTC under CARES Act) extended to December 31, 2021
- Refund of wages paid for qualified sick leave (FFCRA) extended to September 30, 2021. Third quarter is the last quarter this credit can be used.
- Refund of wages paid for qualified expanded family leave (FFCRA) extended to September 30, 2021

## New Credits in Second Quarter 2021

Starting in second quarter 2021, under the American Rescue Plan Act, employers can also claim:

- The COBRA Subsidy Tax Credit; for more information about this tax credit go to the [Tax Filing site](#) > COBRA Coverage to be Subsidized Under the American Rescue Plan
- A new category of leave under the Emergency Paid Sick Leave Act (EPSLA) and the Expanded Family and Medical Leave Act (Expanded FMLA) to:
  - Include the time employees are seeking or awaiting the results of diagnostic tests for, or medical diagnoses of COVID-19.
  - Employees are obtaining immunizations related to COVID-19 or recovering from an injury, disability, illness, or condition related to such immunization.
  - Employers may provide employees with paid family leave if employees are unable to work due to any of the conditions for which eligible employers may provide paid sick leave under the EPSLA.

As a result of the new and extended credits, the IRS revised the second quarter 2021 Form 941 (rev date June 2021). The IRS will use this return in the third and fourth quarters 2021 unless additional law changes occur that require changes to the return.

**Note:** The IRS cautions employers not to use previous versions of the return to report wages in these quarters.

## COVID-19 Credits Can't Be Used on Same Wages

The Internal Revenue Service (IRS) continues to emphasize that different COVID-19 tax credits can't be used on the same wages, sometimes referred to as "double-dipping." For example, the same wages can't be used for the following credits:

- FFCRA and ERTC credits
- FFCRA and COBRA Premium Assistance
- FFCRA and Qualified Research Credit
- ERTC and Qualified Research Credit
- FFCRA and Work Opportunity Tax Credit
- ERTC and Work Opportunity Tax Credit

## Form 7200

Another factor that may affect this return is the advance payments you received if you filed Form 7200 (Advance Payment of Employer Credits Due to COVID-19). The advanced payments you receive from filing Form 7200 must be reported on Form 941. If you have already filed, or plan to file Forms 7200, you might find the following resources about how Paychex is handling these forms helpful by going to the [Tax Filing site](#) > Form 7200 Explanation Guide.

**Important** – You must still report COVID-19 wages to Paychex so that we can include them on Form 941. This is the way the IRS substantiates the COVID-19 tax credits; not the Form 7200. Form 7200 is simply the way employers can receive an advance on their COVID-19 tax credits.

## What's New with Form 941?

The IRS made the following changes to the second quarter 2021 Form 941 return:

- A line to report the COBRA Subsidy Tax Credit and the number of individuals provided with premium assistance
- Adjustment to nonrefundable credit lines to reflect the change to the FFCRA credits now being applied to Medicare tax
- Removed lines to report deferred employer and employee social security tax because the deferrals were only allowed in 2020

There are now five worksheets included with the 941 return:

- **Worksheet 1.** Credit for Qualified Sick and Family Leave Wages for Leave Taken before April 1. **Paychex won't complete this worksheet for third quarter 2021.**
- **Worksheet 2.** Employee Retention Tax Credit for the Second Quarter of 2021 Only (Wages Paid After March 31, 2021, and Before July 1, 2021) **Paychex won't complete this worksheet for third quarter 2021.**
- **Worksheet 3.** Credit for Qualified Sick and Family Leave Wages for Leave Taken After March 31, 2021. **Paychex will enter information from this worksheet for FFCRA credits.**

- **Worksheet 4.** Employee Retention Credit for Third and Fourth Quarters of 2021 Only (Qualified Wages Paid After June 30, 2021) **Paychex will enter information from this worksheet for ERTC.**
- **Worksheet 5.** COBRA Premium Assistance Credit. **Paychex will enter information from this worksheet for the COBRA Subsidy Credit.**

Based on the information you report to Paychex and the appropriate quarters, we'll complete the worksheets and use the information to complete the revised 941. The IRS does not require employers to file the worksheets with the return; we'll retain them in our records for your account if we need to refer to this information in the future.

## 941 Return

We'll complete the updated Form 941 based on the information you've reported to Paychex, including:

- Qualified health plan expenses on qualified sick and family leave wages
- Qualified wages for the ERTC
- Qualified health plan expenses on wages reported for the employee retention credit
- Qualified wages for the COBRA Premium Assistance Credit
- Advances received from filing Forms(s) 7200

If you are a Taxpay® client, Paychex will file your third quarter 2021 Form 941 on November 1, 2021, because October 31 is a Sunday.

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