COVID -19 Quarter-End Reporting Third Quarter 2021

The American Rescue Plan Act signed by the President on March 11, 2021 extended many provisions from previously enacted stimulus legislations. These provisions significantly affect the tax credits available under the Families First Coronavirus Response Act (FFCRA) and Coronavirus Aid, Relief, and Economic Security CARES Act. These changes are outlined under each topic in this section.

Employee Retention Tax Credit (ERTC) under the CARES Act

The CARES Act is designed to encourage Eligible Employers to keep employees on their payroll, despite experiencing economic hardship related to COVID-19, with an ERTC.

Changes as a result of the American Recue Plan Act:

- Extended through **December 31, 2021**.
- The maximum amount of qualified wages for each employee is $10,000 **each calendar quarter** for all four quarters of 2021, for qualified wages paid in 2021.
- The maximum credit for qualified wages paid to any employee is **$7,000 per quarter** for all four quarters of 2021, for qualified wages paid in 2021.
- For wages claimed starting on July 1, 2021, the refundable and non-refundable portions of the credit will now be claimed against Medicare taxes rather than Social Security taxes. **This doesn't change the amount of the credit.**
- Expanded the definition of eligible employers to include Recovery Startup Businesses. You may be eligible for ERTC for the COVID-19 pandemic in third and fourth quarters 2021, even if you are a new business.

For more information about how the ERTC can help your business, go to IRS Provides Guidance for Businesses Claiming Employee Retention Tax Credit.

The ERTC and PPP Loan

Under the Consolidated Appropriations Act 2021 employers who received the PPP loan can claim the ERTC as well. Employers can retroactively claim this credit in 2020 as well.

Application of the ERTC

The credit is allowed against the employer portion of social security taxes under section 3111(a) of the Internal Revenue Code (the "Code"), the credits are fully refundable because the Eligible Employer may get a refund if the amount of the credit is more than certain federal employment taxes the Eligible Employer owes.

Important: The IRS has specific guidelines about identifying full-time employees employed during 2019 according to the Determining Qualified Wages on their FAQ site.

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Employers can report the ERTC on Form 941 in 2021.

For additional information about Employee Tax Retention Credits, go to the IRS website FAQs: Employee Retention Credit under the CARES Act.

How is Paychex Handling the ERTC?

Paychex updated our software to include earnings codes that automatically take 70% of the wages entered and apply this amount to the credit up to $10,000 in wages for each employee **per quarter**. The credit is calculated at 70% of the eligible wages, up to a maximum of $7,000 per employee per quarter.

By reporting amounts through the earnings codes set up, we'll calculate the credit and reduce your federal tax liabilities. Any excess amount will be carried over and applied as a credit to the next payroll. Any excess credit at the end of the quarter will be marked for a refund by the IRS on Form 941.

ERTC for Recovery Startup Businesses

You must meet the following requirements to be considered a Recovery Startup Business.

An employer who:

1. Began carrying on any trade or business after **February 15, 2020**,
2. Average annual gross receipts do **not exceed $1,000,000, and**.
3. Is not otherwise eligible due to a full or partial suspension of operations or a decline in gross receipts.

If you meet these requirements, the total amount of ERTC you are eligible for is **$50,000 per quarter**.

You should review these requirements with your CPA or tax advisor.

If you determine you're eligible for the credit:	You need to:
You haven't yet taken advantage of the ERTC forthe third quarter.	Contact your payroll service representative to report that you're eligible for ERTC because you're a Recovery Startup Business; you can report these tax credits retroactively to July 1, 2021.
You are taking advantage of the tax credit; however, you haven't let Paychex know that you're eligible for the ERTC because you're a Recovery Startup Business.	Contact your payroll service representative to report that you're eligible for ERTC because you're a Recovery Startup Business.

It is important that you let Paychex know if you are receiving the ERTC as the result of being a Recovery Startup Business so we can correctly report the credits on your 941 return.

Reporting ERTC

It's important that you report this information to Paychex so that we can accurately complete your Forms 941.

For additional information about how Paychex is handling the ERTC, go to Customer Support during COVID-19 ERTC.

Families First Coronavirus Response Act (FFCRA)

As a result of the American Rescue Plan Act the following are updates to the Act:

- Tax credits and **voluntary** provision of leaves under the FFCRA framework extended through **September 30, 2021**.
- For wages claimed starting on July 1, 2021, the refundable and non-refundable portions of the credit will now be claimed against Medicare taxes rather than Social Security taxes. **This change doesn't change the amount of the credit.**
- The maximum number of days for which qualified sick leave wages can be paid and the number allowed for an employer to get a credit will be reset to 10 days starting April 1, 2021. Employees cannot carry over unused hours. If an employer chooses to provide leave under the EPSLA or EFMLEA, they would be eligible to claim the credit again.

FFCRA Tax Credits Changed from Mandatory to Voluntary in 2021

- The provisions of Emergency Paid Sick Leave Act (EPSLA) and Emergency Family and Medical Leave Act (EFMLEA) are voluntary for employers in 2021; they are no longer a requirement as they were in 2020. If an employer chooses to provide this leave to qualified employees in first quarter 2021, they should meet the requirements outlined here.
- **Employers are responsible to track these limits and report only these types of wages up to the limits.**

The following is a description of the FFCRA Credits:

The FFCRA requires employers to provide paid leave through two separate provisions:

Emergency Paid Sick Leave Act (EPSLA), which entitles workers to up to 80 hours of paid sick time when they are unable to work for certain reasons related to COVID-19 (EPSL), and

Emergency Family and Medical Leave Expansion Act (EFMLEA), which entitles workers to certain paid family and medical leave (EFML).

Refundable Tax Credit. The FFCRA provides that employers subject to the EPSLA and the EFMLEA paid leave requirements are entitled to fully refundable tax credits in the full amount (100%) of the qualified sick leave wages and qualified family leave wages, plus allocable qualified health plan expenses and the employer's share of Medicare tax, paid for leave during the period beginning April 1, 2020, and ending March 31, 2021.

Emergency Paid Sick Leave. Under the EPSLA there are six qualifying reasons for which an employee is entitled to take paid leave related to COVID-19 if the employee is unable to work (including unable to telework) because the employee:

1.) is subject to a Federal, State, or local quarantine or isolation order related to COVID-19;

2.) has been advised by a health care provider to self-quarantine related to COVID-19;

3.) is experiencing COVID-19 symptoms and is seeking a medical diagnosis;

4.) is caring for an individual subject to an order described in (1) or self-quarantine as described in (2);

5.) is caring for his or her child whose school or place of care is closed (or child care provider is unavailable) due to COVID-19 related reasons; or

6.) is experiencing any other substantially-similar condition specified by the U.S. Department of Health and Human Services.

For more information on FFCRA, go to Tax Credits for Paid Leave Extended by the American Rescue Plan Act.

Reporting FFCRA to Paychex

It's important that you report this information to Paychex so that we can accurately complete your Forms 941.

FFCRA and ERTC on Form 7200

If you elected to receive a COVID-19 tax credit, Paychex will apply the amount of the credits to your federal tax liability each time you process payroll, which in most cases is the quickest way to access the credit.

If you choose to file one or more Forms 7200 (Advance Payment of Employer Credits Due to COVID-19) instead of electing to have Paychex apply the credits to your federal tax liability, you must provide Paychex with this information as soon as possible so we can report this information on Form 941.

Form 7200

If you plan on filing Form 7200, go to the Form 7200 Explanation Guide for additional information on how COVID-19 wages must be reported on both Form 7200 and Form 941.

Employer Social Security Tax Deferral Information

On June 3, 2020, the PPP Flexibility Act was passed. As part of this Act, if you received a Paycheck Protection Program (PPP) Loan, you could defer deposit and payment of your share of social security tax through December 31, 2020, whether or not your loan was forgiven. Previously, you could only defer deposit and payment of this tax until your PPP loan was forgiven.

As a reminder, the amount of deposit and payment of your share of social security that was deferred will be due as follows: 50% due by December 31, 2021, and the remaining 50% due by December 31, 2022 or as otherwise set forth in the FFCRA/CARES Act tax credits and deferrals addendum to the service agreement between you and Paychex.

941 Return

The IRS created an updated Form 941 for second quarter 2021 based on the American Rescue Plan Act changes.

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

- Qualified wages for qualified sick leave and family leave wages
- Qualified health plan expenses on qualified sick and family leave wages
- Qualified wages for the employee retention credit
- Qualified health plan expenses on wages reported for the employee retention credit
- Employer social security tax you've deferred
- Advances received from filing Forms(s) 7200

Important: – We'll report this information based on what you've reported to Paychex, including any advances you've received from filing Form(s) 7200. The 941 has been expanded to accommodate additional reporting for COVID-19 related wages and employer tax credits. Schedule B for semi-weekly schedule depositors has also been revised.

Work Opportunity Tax Credit

- Work Opportunity Tax Credit (WOTC) (section 51 of the Internal Revenue Code) states that no wages used for WOTC are eligible for COVID-19 tax credits

Employee Social Security Tax Deferral

IRS Notice 2020-65 provides guidance to defer the withholding, deposit, and payment of the employee share of Social Security tax. The deferral period is from **September 1, 2020 to December 31, 2020**.

Employers who have elected to defer the employee Social Security tax are responsible for collecting and paying back deferred taxes. Payments would be due between **January 1, 2021 and December 31, 2021**.

Paychex is taking the total amount that each employee deferred between September 1, and December 31, 2020, and dividing it by the number of pay periods employees are projected to have between January 1, and December 31, 2021. This is the per pay period amount the employee needs to pay back each pay period in 2021 for the employee Social Security tax deferral in addition to their normal employee social security tax withholding.

Based on IRS instructions, employers are responsible for withholding/collecting deferred tax obligations ratably from their employees and paying back the deferred amounts between January 1, 2021 and December 31, 2021.

If employers cannot withhold or otherwise collect deferred amounts (e.g., an employee is on leave or the individual no longer works for the business because of termination or by choice), they are still responsible for remitting the payment by December 31, 2021 or it will result in penalties/interest on the unpaid tax beginning January 1, 2022.

Additional Resources

As we receive additional guidance from the IRS about these topics, we'll update the following resources

- Customer Support during COVID-19
- Coronavirus (COVID-19) Help Center

State Resources

In response to the COVID-19 pandemic, state and local governments continue to issue new and modify existing executive orders, laws and regulations. At the same time, the federal, state and local governments are providing additional guidance to help keep people safe and coordinate re-opening efforts.

We realize the challenges this represents and want to help you navigate these regulations. We've created a COVID-19 Resources by State webpage with details on your state's response, plus other valuable information such as:

- Stay-at-Home or Shelter-in-Place orders
- Collection process
- Leave regulations
- Links to additional resources (state labor agencies, state COVID-19 pages)

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State IDs and Social Security Numbers (SSNs)

With many states reducing staff during COVID-19, paper return processing has slowed down or temporarily halted. As a result, it's more important than ever to make sure you've reported the following information for your business so Paychex can electronically file your returns.

- all state and local agency IDs
- all employee SSNs – many states won't accept quarterly state unemployment insurance (SUI) statements with SSNs

The content contained within this document reflects the most current information at the time of its release and is subject to change.

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