



IRS Provides Guidance on Tax Credits for COVID-19 Vaccination Paid Time Off

By Marc T. Finer | April 26, 2021

To encourage more people to obtain the COVID-19 vaccines, the American Rescue Plan Act of 2021 permits eligible employers of small and medium-sized businesses to claim refundable tax credits to reimburse them for the cost of providing paid time off for employees to receive COVID-19 vaccinations and recover from any potential side effects related to the vaccines. The tax credits are available from April 1 through September 30, 2021. This means that employers who provided employees with paid leave before April 1, 2021 will not be reimbursed for the wages paid.

The IRS recently issued a fact sheet, [FS-2021-09, April 2021](#), that describes which employers are eligible for the tax credits, the amount of the tax credits, how the credits are calculated and how eligible employers may claim the credits. Basic details explained in FS-2021-09 include:

- An eligible employer includes any business, including tax-exempt organizations, with fewer than 500 employees. Government employers, other than the federal government and its agencies and instrumentalities, and self-employed individuals are also eligible employers.
- The paid leave credits are tax credits against the employer’s share of the Medicare tax. Because the credits are refundable, the employer is entitled to receive payment of the entire credit amount even if the credits exceed the employer’s share of the Medicare tax. The tax credits for paid sick leave wages paid for COVID-19 related reasons cover a two-week period (i.e., up to ten workdays or 80 work hours) and are limited to the lower of the employee’s full regular rate of pay or \$511 per day (no more than \$5,110 in total). The amount of the tax credits is 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).
- Tax credits can be claimed when eligible employers file their quarterly Form 941 (Employer Quarterly Federal Tax Return). In anticipation of receiving the credits, employers can keep the federal employment taxes they otherwise would have deposited, including federal income tax withheld from employees, and the employees’ and employer’s share of Social Security and Medicare taxes with respect to all employees up to the amount of the credit for which the employer is eligible. If an eligible employer does not have sufficient federal employment taxes set aside for deposit to cover the paid sick leave wages, the employer may request an advance of the credits by filing Form 7200 (Advance Payment of Employer Credits Due to COVID-19). An employer who receives an advance must account for the advance when it files its Form 941 for the relevant quarter. Eligible employers claiming the tax credits must keep records and documentation supporting each employee’s leave.
- Self-employed individuals may claim a comparable tax credit on their individual Form 1040 (U.S. Individual Income Tax Return).

If you have any questions regarding paid sick leave credits or FS-2021-09, April 2021, please contact Marc T. Finer, Tax Partner, at 860-240-6096 or mfiner@murthlaw.com.