

# COVID-19 Year-End Reporting

## 2020 Form W-2

The [IRS issued Notice 2020-54](#) providing instructions on reporting the amount of qualified sick leave wages and expanded family leave wages paid to employees under the Families First Coronavirus Response Act (FFCRA).

To comply with this requirement, Paychex will report the following information on the 2020 Forms W-2:

- Boxes 1, 3, and 5 as taxable wages
- Box 14:
  - **ESL1** - Emergency Paid Sick leave wages subject to the \$511 per day limit that are for employees directly impacted by COVID
  - **ESL2** - Emergency Paid Sick leave wages subject to the \$200 per day limit that are for employees who are caring for someone else impacted by COVID
  - **EFML** – Expanded Family Medical Leave for employees caring for their children whose school or place of care is closed.

## Form W-2 and ESR Paychex Business Continuity Plans

The COVID-19 pandemic has added complexity and uncertainty to today's business environment. Paychex wants to ensure you're prepared for circumstances that may arise because of the challenges of the pandemic.

We're making contingency plans if we need to provide year-end returns, including Forms W-2 through a different channel based on the COVID-19 pandemic. As part of this preparation, we sent you an updated service

agreement that allows us to provide your employee and employer copies of Form W-2s online through your Paychex Flex® or Paychex HR Online account.

While we're planning to print and deliver your Form W-2s as we normally do, we want to be prepared in case you cannot receive your print delivery on time. If we need to deliver your Forms W-2s online, we will notify you by mid-January 2021.

## Paychex Employee Shared Responsibility (ESR) Service

We're making similar plans for Forms 1094-C and 1095-C for our ESR clients to meet Affordable Care Act regulations.

## Employee Retention Credit

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, is designed to encourage Eligible Employers to keep employees on their payroll, despite experiencing economic hardship related to COVID-19, with an employee retention tax credit (Employee Retention Credit). The Employee Retention Credit is a fully refundable tax credit for employers equal to 50 percent of qualified wages (including allocable qualified health plan expenses) that Eligible Employers pay their employees.

The refundable tax credit is equal to 50% of qualified wages paid to employees after March 12, 2020, and before January 1, 2021.

The credit equals 50% of the qualified wages (including qualified health plan expenses) that an Eligible Employer pays in a calendar quarter. The maximum amount of qualified wages for each employee for all calendar quarters is \$10,000 so that the maximum credit for qualified wages paid to any employee is \$5,000.

Employers can report the employee tax credit on Form 941 in second, third, and/or fourth quarters of 2020.

For additional information about Employee Retention Credits, go to the IRS website FAQs: [Employee Retention Credit under the CARES Act](#).

### **How is Paychex Handling the Employee Retention Credit?**

Paychex updated our software to include earnings codes that automatically take half of the wages entered and apply this amount to the credit up to \$10,000 in wages for each employee. The credit is calculated at 50% of the eligible wages, up to a maximum of \$5,000 per employee.

By reporting amounts through the earnings codes set up, we'll calculate the credit and reduce clients federal tax liability. 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.

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

For additional information about how Paychex is handling the Employee Retention Credit, go to [Customer Support during COVID-19/Employee Retention Credit](#).

## **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 can defer deposit and payment of your share of social security tax for until 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.

## **Work Opportunity Tax Credit**

- Work Opportunity Tax Credit (WOTC) (section 51 of the Internal Revenue Code): 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 April 30, 2021**.

If you choose to defer employee Social Security, you should contact your payroll service representative. To opt-in to the service, we will require you to agree to terms and conditions of an addendum.



For information on quarterly reporting of Form 941 and Form 7200, go to <https://www.irs.gov/forms-pubs/about-form-7200>.