

COVID-19 Quarter-End/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 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.



Application of the Employee Retention Credit

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.

Definition of Qualified Wages

The definition of qualified wages depends, in part, on the average number of full-time employees (as defined in section 4980H of the Code) employed by the Eligible Employer during 2019.

- **Employers with 100 or fewer full-time employees.** If an Eligible Employer averaged 100 or fewer full-time employees in 2019, the Employee Retention Credit is based on qualified wages paid to any

employees, regardless of whether they worked or not during any period of economic hardship (1) a full or partial suspension of operations or (2) a significant decline in gross receipts (i.e., employees who were and were not working, but were still paid).

- **Employers with more than 100 full-time employees.** If an Eligible Employer averaged more than 100 full-time employees on average in 2019, then the credit is allowed only for wages paid to employees who did not work during the calendar quarter due to either (1) a full or partial suspension of operations or (2) a significant decline in gross receipts. For these employers, qualified wages taken into account for an employee may not exceed what the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.

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

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.

Reporting Employee Retention Credits

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

If you overlooked reporting this information in previous quarters, it can still be applied.

In order for you to apply the Employee Retention Credit, you must report this with a check date no later than **December 31, 2020**.

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

Families First Coronavirus Response Act (FFCRA)

With COVID-19 spiking in several areas of the country, we're reminding you that you can still use these refundable tax credits in fourth quarter 2020.

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 expanded 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 December 31, 2020.

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 details of the FFCRA, go to: [COVID-19-Related Tax Credits for Required Paid Leave Provided by Small and Midsize Businesses FAQs](#)

Reporting FFCRA to Paychex

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

In order for you to apply the FFCRA, you must report this with a check date no later than December 31, 2020.

FFCRA and Employee Retention Credits/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, but no later than **Thursday, December 31, 2020**, so we can report this information on your fourth quarter Form 941.

New IRS guidance on Form 7200 Filing

On December 3, 2020, the IRS let us know that the last day to file Form 7200 is either January 31, 2021, or the date employers' 941s are filed for fourth quarter 2020, whichever is earlier. Any 7200s received after that date will be rejected.

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/CAES Act tax credits and deferrals addendum to the service agreement between you and Paychex.

941 Return

We'll complete the updated 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 three pages to accommodate additional reporting for COVID-19 related wages and employer tax credits

Schedule B for semiweekly schedule depositors has also been revised. Schedule B amounts will be reduced by the employer social security tax credits based on the information you reported to 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**.

On October 31, 2020, the IRS released guidance for 2020 W-2 reporting of the Employee Social Security Tax Deferral provided in [IRS Notice 2020-65](#).

- Employers who deferred the employee portion of social security should include any wages that withholding, and payment was deferred in **Box 3** (Social security wages) and/or **Box 7** (Social security tips).
- Employers should **not** include any amount of employee social security tax that has not been withheld in **Box 4** (Social security tax withheld).
- All employee social security tax withheld in 2021 for the deferred amounts in 2020 should be reported in **Box 4** (Social security tax withheld) on Form W-2c, Corrected Wage and Tax Statement.

Paychex will report this information as required by the IRS on the 2020 Forms W-2.

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>.