

How Lyons HR Clients Receive the Paid Leave Tax Credit

Dear Client:

As I am sure you know, Congress recently passed legislation in response to COVID-19 that may impact your company and your employees. While more legislation is in the works, we wanted to: a) give you a quick summary of the key provisions related to leave; b) provide an overview of how the payroll process at Lyons HR is adopting these provisions; and c) how Lyons HR is making the tax credits available to its clients. These provisions take effect on April 1, 2020 and only affect employers with fewer than 500 employees.

Summary of Key Leave Provisions

Emergency Paid Sick Leave: Employers must offer employees up to 80 hours of paid sick leave (up to monetary caps) to quarantine, to seek a diagnosis or preventive care for coronavirus, or to care for a child.

Emergency Family and Medical Leave: Employees can now take up to 12 weeks of job-protected leave (2 weeks unpaid followed by 10 weeks of paid leave up to monetary caps) if they are unable to work (including by telecommuting) due to a need to care for a child whose school or childcare provider is closed or unavailable due to the Coronavirus outbreak.

Paid Leave Tax Credits: To help bear the cost of the new paid-leave requirements, employers can offset the amounts paid from employment taxes.

For your convenience, here are links to important information and resources from the Department of Labor:

- [General information from the DOL about the leave requirements](#)
- [FAQs about the leave requirements](#)

Lyons HR Payroll Process Changes

As noted above, there are two components of leave associated with the recent legislation:

- Emergency Paid Sick Leave (“Sick Leave”)
- Emergency Family and Medical Leave (“Emergency Leave”)

As the benefit amounts associated with the Sick Leave depend on whether the leave is a) associated with caring for a family member or child of the employee (Indirect Pay); or b) associated with caring for the employee (Direct Pay), Lyons HR has created the following three earnings codes:

- Sick Leave Pay Code (Employee Direct Care)
 - FT employees will have a cap of 80 hrs.
 - PT employees – Lyons HR will provide a new field that will allow the cap to be adjusted for PT employees

- Sick Leave Pay Code (Employee Indirect Pay)
 - 2/3 of employee's pay
 - this code is for employees that are caring for children/individuals impacted by the COVID 19.
- Emergency Leave Pay Code
 - 2/3 of employee's pay

Lyons HR will have specific reports available to assist clients in tracking earnings associated with the COVID 19 earnings codes.

How Will Lyons HR Process Client Tax Credits?

As noted above, employers can offset the amounts paid for the Emergency Leave and Sick Leave from employment taxes. To facilitate this, Lyons HR has added a function to its payroll platform that tracks and automatically processes client payroll tax credits on their invoices. The credit issued on each client payroll invoice will be the lesser of the following: a) the sum of FICA payroll taxes (both employer and employee portions) and employee federal income tax withholdings on the invoice; or b) the total Emergency Leave and Sick Leave benefits paid to employees on the invoice. If benefit amounts paid to employees exceed the sum of the FICA payroll taxes and federal income tax withholdings, Lyons HR's system can track these "negative amounts" and add them to the next invoice. The example below illustrates these concepts:

- A Lyons HR client has the following employees paid during a weekly payroll period:
 - 2 employees each making \$1,500 per week that are not on leave for a total of \$3,000
 - 2 employees each making \$1,000 per week that are on Sick Leave—Indirect Pay (i.e. 2/3 normal wage up to \$200/day) for a total of \$2,000
 - Wages for the 4 employees total \$5,000
 - Total FICA payroll taxes would equal 15.3% of \$5,000 or \$765 (note this includes the employer and employee portions of FICA).
 - The total federal income tax withholdings for these employees equals \$570 (note this amount is influenced by several factors including employees W-4 elections and is shown for illustrative purposes).
 - The client would receive a credit equal to the lesser of a) the sum of the FICA payroll taxes (\$765) and the federal income tax withholdings (\$570) which equals \$1,335; or b) the total COVID-19 related benefits paid which equals \$2,000. In this example, the lesser is \$1,335.
 - As the total COVID-19 benefits exceeded the tax credit issued by \$665, this amount (i.e. the "negative amount") would carryforward towards the calculation of tax credits on subsequent invoices.

Please feel free to reach out to us if you have any questions or concerns about these new requirements. As always Lyons HR will keep you abreast of additional legislation (including the CARES Act) that may impact this process. Thank you.