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by recent tax legislation.

Dec. 22, 2020



As 2020 draws to a close—finally—employers may take advantage of several tax credits for employee wages. Consider these four tax-saving opportunities created by recent tax legislation.

**1. Family and medical leave credit:** This credit, authorized by the Tax Cuts and Jobs Act (TCJA), was initially scheduled to end after 2019. But the Taxpayer Certainty and Disaster Relief Act passed earlier this year extended it through 2020.

The credit is based on wages paid to qualified employees who are on family and

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received no more than \$72,000 in compensation (indexed for inflation) in the prior year.

**2. Employee retention credit:** The massive Coronavirus Aid, Relief, and Economic Security (CARES) Act established the employee retention credit (ERC). This credit is equal to 50% of the first \$10,000 of qualified wages paid to employees after March 12, 2020 and before January 1, 2021. It is a refundable credit offsetting the Social Security component of payroll tax.

An employer is eligible for the ERC if it—

- Fully or partially suspended operations during any calendar quarter in the year due to government orders on the COVID-19 pandemic; or
- It experiences a significant decline in gross receipts. For these purposes, a “significant decline” occurs if gross receipts equal less than 50% of the gross receipts for the same calendar quarter in 2019.

**3. COVID-19-related credit:** The Families First Coronavirus Response Act (FFCRA) provides employers with a tax credit covering certain costs of required paid sick leaves and expanded family and medical leaves for reasons relating to COVID-19. This credit is available for wages paid from April 1, 2020, through December 31, 2020.

To qualify, employers with fewer than 500 employees must provide emergency paid sick leave to an eligible employee, up to a maximum total of \$5,110, who is in COVID-19 quarantine or seeking a coronavirus diagnosis.

This credit is also refundable and offsets the Social Security component of payroll tax. Contact your professional tax advisor about interaction with the other credits.

**4. Work Opportunity Tax Credit:** Prior to the TCJA and CARES Act, employers could claim the Work Opportunity Tax Credit (WOTC) for hiring employees from certain

disadvantaged groups.

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