

Pacific Lake CEOs:

In an effort to save you time and energy as you focus on your employees and customers, we have asked Jackson Lewis, a leading law firm focused on labor and employment law to review and summarize the Families First Coronavirus Response Act that was signed into law last week and impacts paid emergency leave and sick pay for employers with less than 500 employees in the US. In addition, the attachment highlights the method for receiving tax credits to cover the cost of these newly required leave policies.

This is meant to be a shortcut, not specific legal advice for your company - if you need specific legal advice, please ask your counsel or you can contact Larry Stone at Jackson Lewis (contact info below). If you have any non-legal questions about communicating with employees, actions you are considering, etc., please don't hesitate to reach out to us at Pacific Lake. And please feel free to forward this to anyone else on your team or in the search fund community that would benefit.

Also, we know that many of you are working hard to preserve cash and make adjustments to your business in response to the uncertainty going forward. To support your efforts, Pacific Lake would like to defer any board fees for at least six months. We are proud to be partnered with you, and to support you and your companies through this challenge.

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# Families First Coronavirus Act

**IR-2020-57, March 20, 2020**

WASHINGTON — Today the U.S. Treasury Department, Internal Revenue Service (IRS), and the U.S. Department of Labor (Labor) announced that small and midsize employers can begin taking advantage of two new refundable payroll tax credits, designed to immediately and fully reimburse them, dollar-for-dollar, for the cost of providing Coronavirus-related leave to their employees. This relief to employees and small and midsize businesses is provided under the Families First Coronavirus Response Act (Act), signed by President Trump on March 18, 2020.

The Act will help the United States combat and defeat COVID-19 by giving all American businesses with fewer than 500 employees funds to provide employees with paid leave, either for the employee's own health needs or to care for family members. The legislation will enable employers to keep their workers on their payrolls, while at the same time ensuring that workers are not forced to choose between their paychecks and the public health measures needed to combat the virus.

## **Background**

The Act provided paid sick leave and expanded family and medical leave for COVID-19 related reasons and created the refundable paid sick leave credit and the paid childcare leave credit for eligible employers. Eligible employers are businesses and tax-exempt organizations with fewer than 500 employees that are required to provide emergency paid sick leave and emergency paid family and medical leave under the Act. Eligible employers will be able to claim these credits based on qualifying leave they provide between the effective date and December 31, 2020. Equivalent credits are available to self-employed individuals based on similar circumstances.

## **Key Takeaways**

### **Paid Sick Leave for Workers**

For COVID-19 related reasons, employees receive up to 80 hours of paid sick leave and expanded paid child care leave when employees' children's schools are closed or child care providers are unavailable.

### **Complete Coverage**

- Employers receive 100% reimbursement for paid leave pursuant to the Act.
  - o Health insurance costs are also included in the credit.
  - o Employers face no payroll tax liability.
  - o Self-employed individuals receive an equivalent credit.

# Families First Coronavirus Act

## Key Takeaways

### **Fast Funds**

Reimbursement will be quick and easy to obtain. An immediate dollar-for-dollar tax offset against payroll taxes will be provided. Where a refund is owed, the IRS will send the refund as quickly as possible.

### **Small Business Protection**

Employers with fewer than 50 employees are eligible for an exemption from the requirements to provide leave to care for a child whose school is closed, or childcare is unavailable in cases where the viability of the business is threatened.

### **Easing Compliance**

Requirements subject to 30-day non-enforcement period for good faith compliance efforts. To take immediate advantage of the paid leave credits, businesses can retain and access funds that they would otherwise pay to the IRS in payroll taxes. If those amounts are not sufficient to cover the cost of paid leave, employers can seek an expedited advance from the IRS by submitting a streamlined claim form that will be released next week.

### **Paid Leave**

The Act provides that employees of eligible employers can receive two weeks (up to 80 hours) of paid sick leave at 100% of the employee's pay where the employee is unable to work because the employee is quarantined, and/or experiencing COVID-19 symptoms, and seeking a medical diagnosis. An employee who is unable to work because of a need to care for an individual subject to quarantine, to care for a child whose school is closed or childcare provider is unavailable for reasons related to COVID-19, and/or the employee is experiencing substantially similar conditions as specified by the U.S.

Department of Health and Human Services can receive two weeks (up to 80 hours) of paid sick leave at 2/3 the employee's pay. An employee who is unable to work due to a need to care for a child whose school is closed, or childcare provider is unavailable for reasons related to COVID-19, may in some instances receive up to an additional ten weeks of expanded paid family and medical leave at 2/3 the employee's pay.

# Families First Coronavirus Act

## Key Takeaways

### **Paid Sick Leave Credit**

For an employee who is unable to work because of Coronavirus quarantine or self-quarantine or has Coronavirus symptoms and is seeking a medical diagnosis, eligible employers may receive a refundable sick leave credit for sick leave at the employee's regular rate of pay, up to \$511 per day and \$5,110 in the aggregate, for a total of 10 days.

For an employee who is caring for someone with Coronavirus, or is caring for a child because the child's school or child care facility is closed, or the child care provider is unavailable due to the Coronavirus, eligible employers may claim a credit for two-thirds of the employee's regular rate of pay, up to \$200 per day and \$2,000 in the aggregate, for up to 10 days.

Eligible employers are entitled to an additional tax credit determined based on costs to maintain health insurance coverage for the eligible employee during the leave period.

### **Child Care Leave Credit**

In addition to the sick leave credit, for an employee who is unable to work because of a need to care for a child whose school or childcare facility is closed or whose childcare provider is unavailable due to the Coronavirus, eligible employers may receive a refundable childcare leave credit. This credit is equal to two-thirds of the employee's regular pay, capped at \$200 per day or \$10,000 in the aggregate. Up to 10 weeks of qualifying leave can be counted towards the childcare leave credit. Eligible employers are entitled to an additional tax credit determined based on costs to maintain health insurance coverage for the eligible employee during the leave period.

### **Small Business Exemption**

Small businesses with fewer than 50 employees will be eligible for an exemption from the leave requirements relating to school closings or childcare unavailability where the requirements would jeopardize the ability of the business to continue. The exemption will be available on the basis of simple and clear criteria that make it available in circumstances involving jeopardy to the viability of an employer's business as a going concern. Labor will provide emergency guidance and rulemaking to clearly articulate this standard.

# Families First Coronavirus Act

## Key Takeaways

### **Prompt Payment for the Cost of Providing Leave**

When employers pay their employees, they are required to withhold from their employees' paychecks federal income taxes and the employees' share of Social Security and Medicare taxes. The employers then are required to deposit these federal taxes, along with their share of Social Security and Medicare taxes, with the IRS and file quarterly payroll tax returns (Form 941 series) with the IRS.

Under guidance that will be released next week, eligible employers who pay qualifying sick or childcare leave will be able to retain an amount of the payroll taxes equal to the amount of qualifying sick and childcare leave that they paid, rather than deposit them with the IRS. The payroll taxes that are available for retention include withheld federal income taxes, the employee share of Social Security and Medicare taxes, and the employer share of Social Security and Medicare taxes with respect to all employees. If there are not sufficient payroll taxes to cover the cost of qualified sick and childcare leave paid, employers will be able to file a request for an accelerated payment from the IRS. The IRS expects to process these requests in two weeks or less. The details of this new, expedited procedure will be announced next week.

### **Examples**

If an eligible employer paid \$5,000 in sick leave and is otherwise required to deposit \$8,000 in payroll taxes, including taxes withheld from all its employees, the employer could use up to \$5,000 of the \$8,000 of taxes it was going to deposit for making qualified leave payments. The employer would only be required under the law to deposit the remaining \$3,000 on its next regular deposit date.

If an eligible employer paid \$10,000 in sick leave and was required to deposit \$8,000 in taxes, the employer could use the entire \$8,000 of taxes in order to make qualified leave payments and file a request for an accelerated credit for the remaining \$2,000.

### **For More Information**

For more information about these credits and other relief, visit Coronavirus Tax Relief on [IRS.gov](https://www.irs.gov). Information regarding the process to receive an advance payment of the credit will be posted next week.