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# COVID-Related Tax Credits Available to Nonprofit Employers

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While checks to individuals and state and local recovery funds captured the headlines regarding the [American Rescue Plan Act](#) (ARPA) enacted in early March, the \$1.9 trillion economic stimulus plan contains several important tax credits designed to help businesses, including charitable nonprofits, recoup the costs of providing assistance to their employees impacted by COVID-19. Those credits include extending the [employee retention tax credit](#) and creating a refundable tax credit for providing **paid leave** for employees receiving or recovering from vaccines. Another key provision in the ARPA will provide significant financial support in the form of an enhanced **child tax credit** for lower-income families, many of whom are served by charitable organizations.

## Employee Retention Tax Credit

The ARP extends the availability of the Employee Retention Tax Credit for businesses and charitable nonprofits through December 2021 and allows those qualifying employers to offset their current payroll tax liabilities by up to \$7,000 per employee per quarter, or up to \$28,000 per employee for 2021 (\$10,000 quarterly wage cap times 70 percent times four quarters).

The ERTC provides a *refundable payroll tax credit* to employers **(i)** whose operations were fully or partially suspended due to government orders or **(ii)** who experienced a quarterly decline in gross receipts compared to the same quarter in 2019. For claiming the ERTC for 2020, employers must show a 50 percent decline in gross receipts for a quarter; claims in 2021 need only show a 20 percent decline. See this article for [more information about claiming the ERTC for 2020](#).

As expanded by the [COVID relief law enacted at the end of last year](#), an employer can claim the ERTC for the first two fiscal quarters of 2021. The ARP expanded the 2021 ERC to all four quarters and increased the maximum amount of the credit. In a technical change that doesn't affect an employer's bottom line, the ARP provides that the credit must be claimed against the employer's share of Medicare rather than Social Security taxes for the third and fourth quarters of 2021.

## **Paid Leave Credit Programs**

The [Families First Coronavirus Response Act](#) (Families First Act), enacted in March 2020, required employers (including charitable nonprofits) with fewer than 500 employees to provide emergency paid sick leave and expanded family and medical leave related to COVID-19 occurring from March 2020 to December 31, 2020. Employers received payroll tax credits to offset the cost of leave under the Families First Act. When the mandated leave provisions expired at the end of 2020, eligible employers were permitted to voluntarily choose to extend paid leave for employees through March 31, 2021 and obtain payroll tax credits to offset the cost of leave the voluntarily provided until March 31, 2021.

The ARP extends the payroll tax credits through September 30, 2021 for eligible employers (those with fewer than 500 employees) who voluntarily provide such paid leave to employees who may take leave due to illness, quarantine, or caregiving. In addition, the IRS recently announced in [Fact Sheet 2021-09](#) that the paid leave credits apply to leave taken by employees to receive or recover from COVID-19 vaccinations.

The IRS has provided extensive details on [how to calculate and claim the paid leave credit](#). Highlights of the IRS fact sheet include:

- **Eligible Employers:** An eligible employer is any business, including a tax-exempt organization, with fewer than 500 employees. Self-employed

individuals are eligible for similar tax credits.

- Paid sick and family leave for which tax credits can be claimed: Eligible employers are entitled to these refundable tax credits for wages paid for leave taken by employees who are not able to work or telework due to reasons related to COVID-19, including leave taken to receive COVID-19 vaccinations or to recover from any injury, disability, illness or condition related to the vaccinations. These tax credits are available for wages paid for leave from April 1, 2021, through September 30, 2021.
- Calculating the tax credit: The paid leave credits under the ARP are tax credits applied against the employer's share of the Medicare tax. The tax credits are refundable, which means that the employer is entitled to payment of the full amount of the credits if it exceeds the employer owes for its share of Medicare taxes. The tax credit for **paid sick leave** wages is equal to the sick leave wages paid for COVID-19 related reasons for up to two weeks (80 hours), limited to \$511 per day and \$5,110 in the aggregate, at 100 percent of the employee's regular rate of pay. The tax credit for **paid family leave** wages is equal to the family leave wages paid for up to twelve weeks, limited to \$200 per day and \$12,000 in the aggregate, at two-thirds of the employee's regular rate of pay. The amount of these tax credits is increased by allocable health plan expenses and contributions for certain collectively bargained benefits, as well as the employer's share of social security and Medicare taxes paid on the wages (up to the respective daily and total caps).
- Claiming the credit: As states above, eligible employers may claim refundable payroll tax credits for sick and family leave paid to employees, including leave taken to receive or recover from COVID-19 vaccinations, for leave from April 1, 2021, through September 30, 2021. Eligible employers report their total paid sick and family leave wages (plus the eligible health plan expenses and collectively bargained contributions, as well as the eligible employer's share of social security and Medicare taxes on the paid leave wages) for each quarter on their federal employment tax return, usually [Form 941, Employer's Quarterly Federal Tax Return](#).

In anticipation of claiming the credits on the Form 941, eligible employers can keep the federal employment taxes that they otherwise would have deposited, including federal income tax withheld from employees, the employees' share of social security and Medicare taxes and the eligible employer's share of social security and Medicare taxes with respect to all employees up to the amount of credit for which they are

eligible. The [Form 941 instructions](#) explain how to reflect the reduced liabilities for the quarter related to the deposit schedule. If an eligible employer does not have enough federal employment taxes set aside for deposit to cover amounts provided as paid sick and family leave wages (plus the additional expenses and contributions discussed above), the eligible employer may request an advance of the credits by filing [Form 7200, Advance Payment of Employer Credits Due to COVID-19 \(instructions\)](#). The eligible employer will account for the amounts received as an advance when it files its Form 941, Employer's Quarterly Federal Tax Return, for the relevant quarter.

## **Child Tax Credit**

The American Rescue Plan's expansion of the refundable Child Tax Credit (CTC) reportedly will substantially reduce child poverty by supplementing the earnings of families receiving the tax credit. In recognition that many charitable organizations work with individuals and families that may be eligible for the enhanced relief, we share the recent changes:

1. The credit amount has been increased. For 2021, the CTC will be \$3,600 for children under age 6, and \$3,000 for other children under age 18.
2. The credit's scope has been expanded. Children 17 years old and younger will now be covered by the CTC.
3. Credit amounts will be made through advance payments during 2021 although the process has not been announced as of this writing. Individuals eligible for a 2021 CTC will begin to receive periodic payments from July 1 through December 31, 2021. This change will allow struggling families to receive financial assistance now, rather than waiting until the 2022 tax filing season to receive their CTC support.
4. The credit is now fully refundable. By making the Child Tax Credit fully refundable, low- income households will be entitled to receive the full value of the credit, as significantly expanded and increased by the American Rescue Plan.

The expanded Child Tax Credit begins to phase out when adjusted gross income reaches \$75,000 for single filers, \$150,000 for joint filers and \$112,500 for head of household filers.

In order to provide qualified families with up-to-date CTC payments, the ARP requires the IRS to establish an online portal for taxpayers to update relevant data for mid-year payment adjustments (for example, the birth of a child during 2021). In addition to this online tool, the Treasury Department and the IRS will carry out a sweeping public awareness campaign parallel to its Economic Impact Payment campaign to reach all Americans who may be eligible for this financial assistance.