

New FMLA Credits for Small Businesses

How to take advantage of the new FMLA business credit

The Family Medical Leave Act, under IRS Section 45S, has made some significant changes that will now affect all small business owners who pay any employee less than \$72,000 and pay for sick days.

If you offer full paid sick days, you are now entitled to a tax credit, not just a deduction. (A credit directly reduces the tax you pay. A deduction reduces your taxable income.) You can take a credit of up to 25% of the wages paid.

FMLA
is leave for one
or more of the
following
reasons:



Childbirth

Birth of an employee's child and time to care for the newborn



Adoption

Placement with the employee of a child for adoption or foster care



Family Health Condition

Care for a spouse, child, or parent who has a serious health condition

Our Interpretation: If your employee needs to stay home from work because their child is sick and cannot attend school - that's an FMLA credit for you.



Health Condition (Self)

Condition preventing employee from performing the essential functions of his or her job

Our Interpretation: If your employee takes a "mental health" day, feels like they cannot perform the duties of their job that day, or if is sick and cannot work, that's an FMLA credit for you.



Active Duty Family Member

Care for spouse, son, daughter, or parent who is a covered military member or "covered active duty"

A QUALIFIED EMPLOYER

HAS A WRITTEN POLICY THAT:

offers at least

2

WEEKS
PAID
FAMILY/MEDICAL
LEAVE

and pays

50%+

WAGES
NORMALLY
PAID TO THE
EMPLOYEE
DURING LEAVE

A QUALIFIED EMPLOYEE

WORKS FOR A
QUALIFIED EMPLOYER

and has

WORKED

1

**YEAR OR
MORE**

and earned

**UP TO
\$72k
IN 2017**

PAID WAGE %		
50	75	100
12	18.5	25
TAX CREDIT %		
(The more wages you pay during FMLA, the higher your credit!)		

Example:

5 employees with \$40k salary
5 sick days/year @ full pay



$$\begin{matrix} \$40k \\ \text{per day} \end{matrix} = \$153.85 \times 25\% \text{ credit} = \$38.46 \text{ credit per sick day}$$

$$\$38.46 \text{ credit per sick day} \times 5 \text{ days/yr} \times 5 \text{ employees} = \$961.50 \text{ total yearly credit}$$

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How to take advantage of the new FMLA business credit (the plain text version)

The Family Medical Leave Act, under IRS Section 45S has made some significant changes that will now affect all small business owners who pay any employee less than \$72,000 and pay for sick days.

If you offer full paid sick days for your employees when they are out sick, you are now entitled to a tax credit (not deduction, credit) (A credit directly reduces the tax you pay. A deduction reduces your taxable income.) A credit is far more valuable than a deduction. You are allowed to take a credit of up to 25% credit of the wages paid.

While you are required to provide unpaid FMLA when you have 50 or more employees, a business owner can provide these benefits at any size.

Per the IRS, To claim the credit, employers must have a written policy that meets certain requirements:

- Employers must provide at least two weeks of paid family and medical leave annually to all qualifying employees who work full time. This can be prorated for employees who work part time.
- The paid leave must be not less than 50 percent of the wages normally paid to the employee.
- Employee has to be employed with the same employer for at least one full year prior to taking leave.
- Employee must earn no more than \$72,000 annually.

It's All About Your Interpretation - Right Now Anyway

- To receive the credit, the IRS has provided the following reasons - but it's all how you interpret them.
- Birth of an employee's child and to care for the newborn.
- Placement of a child with the employee for adoption or foster care.
- To care for the employee's spouse, child, or parent who has a serious health condition.
- A serious health condition that makes the employee unable to perform the functions of his or her position.
- Any qualifying event due to an employee's spouse, child, or parent being on covered active duty – or being called to duty – in the Armed Forces.
- To care for a service member who is the employee's spouse, child, parent, or next of kin.

The following is how we are interpreting some of these reasons pending IRS guidelines. This may change as the IRS publishes further guidance.

- To care for the employee's spouse, child, or parent who has a serious health condition.
Our Interpretation: If your employee needs to stay home from work because their child is sick and cannot attend school - that's an FMLA credit for you.

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How to take advantage of the new FMLA business credit (the plain text version)

- A serious health condition that makes the employee unable to perform the functions of his or her position.
 - *Our Interpretation:* If your employee takes a "mental health" day, they "feel" like they cannot perform the duties of their job that day, or if your employee is sick and cannot work, that's an FMLA credit for you.

Example Scenario of Your Tax Credit

You have five employees.

Each employee earns an annual salary of \$40,000.

Each employee weekly pay = \$769.23

Each employee daily pay = \$153.85

You pay a full days pay when your employee takes a sick day.

A 25% Tax Credit = \$38.46 Per Day Per Employee

If your employees receive five sick days per year, then:

$\$38.46 \times 5 \text{ days} = \192.30 per employee annually

$\$192.30 \times \text{five employees} = \961.50 tax credit on all employees annually.

Change Your Payroll Code Now

Talk to us or your payroll service to ensure they change the payroll code from PTO or Sick Day to FMLA day. We can help you figure this out. This will help provide the information your CPA will need to complete your business tax return.

File an FMLA Doc and Have Your Eligible Employees Sign a Form

If you need a form and doc for your staff to sign, GetPayroll has resources already created for you! Visit the link below we'll email everything you need immediately. We will provide you with a sample policy for your employee manual as well as the document for your employee to sign.

Visit: <https://bit.ly/fmlacredit>

Learn more at:

<https://www.irs.gov/newsroom/how-the-employer-credit-for-faly-and-medical-leave-benefits-employers>