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How to track paid leave and sick time for the coronavirus

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Learn how to pay your employees paid leave if they've been affected by COVID-19 with QuickBooks Desktop Payroll.

With QuickBooks Desktop Payroll, you can ensure your employees have the money they need, and you comply with the [Family First Coronavirus Response Act \(FFCRA\)](#).

Before you can pay your employees, you need to do a few things. Here's what to do.

Step 1: Determine your employee's benefit and hourly rate

Before you can give your employees this sick leave, you first need to figure out what pay leave type they fall under and their hourly rate.

Benefit type

Under the FFCRA, there are three different types of paid leave. Employers can also get a credit for any health insurance premiums they pay for impacted employees while they are on leave.

- National Paid Leave Employee: Your employee is sick and under quarantine with COVID-19.
- National Paid Leave Family: Your employee is taking care of a family member who is sick or impacted with COVID-19.
- National Paid Leave FMLA: Your employee is taking leave under the Family Medical Leave Act (FMLA) to care for children under 18 whose school or child care is closed because of COVID-19.
- National Paid Leave - Health Credits: If you are contributing to an employee's health insurance during the time they are being paid under the FFCRA provisions, you can track this amount and a credit will be applied to your federal tax liability.

Hourly rate

In most cases, you'll pay your employee the hourly rate you've paid them over the last 6 months. However, there are a few exceptions that correspond with [the Regular Rate of Pay Under the Fair Labor Standards Act \(FLSA\)](#).

- **Employees on commission:** You need to create an hourly rate for them. Their hourly rate under the FFCRA needs to be equal to the commission paid over the last 6 months divided by their hours worked in the 6 month period.
- **Tipped Employees:** You'll need to ensure you include your employees tipped income when entering their paid leave or FMLA expansion pay. Review the amount of income they received over the last six months, and then average it out over the number of hours they worked in the same period. You'll need to change the employee's pay rate during this time and ensure you're paying them at least minimum wage required under the FLSA, your state, or local jurisdiction.

Step 2: Set up your liability and expense accounts for the paid leave

Once you know what type of paid leave type is applicable to your employee's situation, setting up these accounts will help track the eligible wages to use towards tax credits later on.

Create the liability account

1. Go to the Lists menu, and then select Chart of Accounts.
2. Select the Account ▼ dropdown, then select New.
3. Choose Other Account Types, select Other Current Liability and select Continue.
4. Give your liability a name, such as COVID-19 Liabilities, in the Name field, fill out all the relevant information, and select Save and Close.

Create the expense account

1. Go to the Lists menu, then select Chart of Accounts.
2. Select the Account ▼ dropdown, then select New.
3. Choose Expense, then select Continue.
4. From the Account Type dropdown, select Other Expense.
5. Give your expense account a name, such as COVID-19 Expenses, in the Name field, fill out all the relevant information, and select Save and Close.

Step 3: Set up payroll items

Once you set up your liability and expense accounts, you need to set up payroll items to track each type of paid leave found under the FFCRA that you identified in step 1.

National Paid Leave Employee and National Paid Leave Family

1. Go to the Employees menu, then Manage Payroll Items, then select New Payroll Item.
2. Select Custom Setup, then select Next.
3. Select Addition (Employee Loan, Mileage Reimbursement), then select Next.
4. Give your pay type a name, such as National Paid Leave EE or National Paid Leave Family, then select Next.

1. In the Expense account window, select COVID-19 Expenses (or whatever you named the expense account) and then select Next.
2. In the Tax tracking type window, select the paid leave type, such as National Paid Leave EE or National Paid Leave Family based on what you are setting up as the tax tracking type.
3. In the Taxes window, select Next.
4. In the Calculate Based on Quantity window, select Calculate this item based on Quantity, and then select Next.
5. In the Default Rate and Limit window, set the rate for the following items:
 - a. The National Paid Leave Employee limit is \$5110 and the National Paid Leave Family is \$2000.
6. Ensure the Limit Type is Annual, restart each year, and then select Finish.

National Paid Leave FMLA

1. Go to the Employees menu, then Manage Payroll Items, then select New Payroll Item.
2. Select Custom Setup, then select Next.
3. Select Addition, then select Next.
4. Give your pay type a name, such as National Paid Leave FMLA, in the text field and select Next.
5. Select COVID-19 Expenses (or whatever you named the expense account) as the expense account, and then Next.
6. In the Tax Tracking type window, Select National Paid Leave FMLA, then Next.
7. In the Taxes window, select Next.
8. In the Calculate Based on Quantity window, select Neither, and then select Next.
9. In the Default Rate and Limit window, make sure the rate is at 0 and the limit is at \$10,000, select One Time Limit from the Limit Type dropdown, and select Finish.

National Paid Leave - Health Premium

1. Go to the Employees menu, then Manage Payroll Items, then select New Payroll Item.
2. Select Custom Setup, then select Next.
3. Select Company Contribution, then select Next.
4. Give your company contribution a name, such as National Paid Leave - Health credits, and select Next.
5. On the Agency for company-paid liability screen, select COVID-19 Expenses from the Liability account dropdown, and select COVID-19 Expenses (or whatever you named the expense account) from the Expense account dropdown, and then select Next.
6. On the pop message to confirm you selected the same account, select Yes.
7. On the Tax tracking type window, choose National Paid Leave- Health, then select Next.
8. On the Taxes window, select Next.

On the Default rate and limit window, make sure the rate is at 0.00 and then the limit is 10,000, and select One-time Limit from the Limit Type dropdown, select Finish.

Step 4: Set up a new tax item

Once you've set up your payroll items, you'll need to set up tax items to ensure you're tracking the tax credits.

1. Go to the Employees menu, then Manage Payroll Items, then select New Payroll Item.
2. Select Custom Setup, then select Next.
3. On the Payroll item type window, select Other Tax, then select Next.

4. On the Other tax window, select National Paid Leave Credit, and then Next.
5. In the Name used in paychecks and payroll report window, enter National Paid Leave Credit in the text field, then select Next.
6. In the Agency for company-paid liability window, select the agency you pay taxes too from the dropdown, select Payroll Liabilities in the Liability account dropdown, and select Payroll Expenses in the Expense account dropdown, and then select Next.
7. From the Taxable Compensation Window, select Finish.

Next steps

Run a regular payroll

Once you've set up your payroll to handle paid leave under the FFCRA, you can run a regular payroll. When you do run payroll, make sure you add the appropriate payroll items for the paid leave, and track those hours that have limits, and pay out your salaried employees by the hour. Can you add this? Be sure to adjust salary wages accordingly.

Review and claim your tax credits After you've run your payroll with the paid leave, you should be aware of how it affects your taxes. Under the FFCRA, you'll get [credit towards your Federal Tax deposit](#) for the wages and Employer Paid Health Insurance premiums paid under this act. To ensure you've been tracking the leave correctly, you can review your payroll reports to see how many hours you've used in these tax credits.

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