



NAVIGATE

CFO SERVICES

Employee Retention Credit Overview



HARBOR VIEW



Employee Retention Credit (ERC) Overview

“The Internal Revenue Service **urges employers to take advantage of the newly-extended employee retention credit**, designed to make it easier for businesses that, despite challenges posed by COVID-19, choose to keep their employees on the payroll.”

Important facts to note:

- Refundable Federal Payroll tax credit **claimed on Form 941**
- **Calculated as a % of “qualified wages”**
- **Previously was mutually exclusive with PPP until Consolidated Appropriations Act made significant adjustments**
- The number of employees a company has **does not affect** whether a company may claim the credit



Eligible Employer Requirements

Any private-sector businesses or tax-exempt organizations that carries on a trade or business that meets either of the following:

- 1 A business that experienced a **significant decline in gross receipts** during any quarter
- 2 A business that was **fully or partially suspended** due to orders from the Federal, or state government limiting commerce, travel, or group meetings due to COVID-19



“Significant Decline in Revenue” - Explained

A significant decline in gross receipts during any quarter in 2020 or 2021

2020

Gross receipts declined by at least **50%** of the adhering calendar quarter in 2019

2021

Gross receipts declined by at least **20%** of the adhering calendar quarter in 2019



“Fully or Partially Suspended” - Explained

A business that was fully or partially suspended due to orders from the Federal, or state government limiting commerce, travel, or group meetings due to COVID-19;

An appropriate governmental authority imposes restrictions on the business’s operations so that:

- The business must cease all operations; or
- The business can still continue to operate with some, but not all of its normal operations.
- More than a “Nominal Portion” of its business operations are suspended by a governmental order

Government orders include:

- An order from the city's mayor stating that all non-essential businesses must close for a specified period;
- An emergency proclamation that residents of must shelter in place except employees of essential businesses;
- An order imposing a curfew on residents that impacts the operating hours of a trade or business;
- An order mandating a workplace closure for cleaning and disinfecting.



ERC Breakdown

	2020	2021
% Revenue decline (if not impacted by gov't order)	50%	20%
Credit calculated	50% of up to \$10,000 of qualified wages per year	70% of up to \$10,000 of qualified wages per quarter
Wage/Credit caps applied	Annually	Quarterly
Potential benefits per employee	Up to \$5000	Up to \$14,000 (\$7,000 for each Q1 and Q2)



Qualified Wages

Qualified Wages may include:

- 2020 wages paid from March 13 through December 31, 2020
- 2021 wages paid from January 1 through December 31, 2021
- The employee's and the employer's qualified health plan expenses that are properly allocable

Note that a company may not double benefit from claiming credits based on the same wages for purposes of the ERC and:

- Wages used in calculating paid sick and family leave credits under the Families First Coronavirus Response Act (“FFCRA”) may not be considered Qualified Wages for the ERC
- Work Opportunity Tax Credit (“WOTC”)
- Other tax credits (R&D credits)
- Forgiveness on a PPP loan



Credit Calculations

2020

Step 1: Calculate your 2019 FTEs (30 hrs/week or 130 hrs/month per ACA regs)

Step 2: If step 1 < 100 = **ALL EMPLOYEE WAGES ARE ELIGIBLE**

Step 3: If step 1 > 100 = wages for employees “not providing services” are eligible

Step 4: Calculate your credit based on the qualified wages from step 2 or 3 up to \$5,000 per employee (50% of up to \$10,000 per employee)

2021

Step 1: Calculate your 2019 FTEs (30 hrs/week or 130 hrs/month per ACA regs)

Step 2: If step 1 < 500 = **ALL EMPLOYEE WAGES ARE ELIGIBLE**

Step 3: If step 1 > 500 = wages for employees “not providing services” are eligible

Step 4: Calculate your credit based on the qualified wages from step 2 or 3 up to \$7,000 per employee per quarter (70% of up to \$10,000 per employee per quarter)