

EMPLOYEE RETENTION CREDIT

As mentioned in our December 22, 2020 newsletter related to the most recent COVID-19 relief bill, the employee retention credit (ERC) that was originally enacted as part of the CARES Act has been enhanced, extended and liberalized such that it now provides for larger tax credits, extends availability through the second quarter of 2021, and it applies to significantly more businesses by now including those who received Paycheck Protection Program (PPP) loans.

Here is some additional information regarding the credit:

***Federal refundable payroll tax credit currently available
from March 13, 2020 through June 30, 2021***

APPLIES TO ANY OF THE FOLLOWING BUSINESSES

Were partially or fully suspended by a government order,

Had gross receipts for quarters 2, 3 or 4 of 2020 that declined more than 50% compared to gross receipts in the corresponding quarter of 2019, or

Have gross receipts for quarters 1 or 2 of 2021 that declined more than 20% compared to gross receipts in the corresponding quarter of 2019*.

*There is an election available to substitute quarter 4 2020 as compared with quarter 4 2019 gross receipts for quarter 1 2021 gross receipts in meeting this 20% reduction test.

2020

Credit amount is 50% of up to \$10,000 of qualified wages and health expenses paid from March 13, 2020 through December 31, 2020 (maximum \$5,000 per employee).

Credit can be claimed on amended IRS forms 941-X.

2021

Credit amount is 70% of up to \$10,000 of qualified wages and health expenses in **each** of the first two quarters of 2021 (maximum \$7,000 per employee**per quarter**).

Credit can be claimed on IRS forms 941 or in advance by filing IRS form 7200.

Cannot use the same wages for both PPP forgiveness and the ERC. However, wages paid to employees in 2020 in excess of those used to qualify for PPP

forgiveness can qualify for the ERC.

Qualified wages and related health plan expenses vary based on the number of average number of full-time equivalent employees (FTEs) including aggregation for commonly controlled entities:

- 2020
 - If 100 or less average FTEs in 2019, credit is based on qualified wages and/or health plan expenses paid to all employees, whether they worked or not.
 - If more than 100 average FTEs in 2019, credit is based on qualified wages and/or health plan expenses paid to employees for time they did not provide services during the calendar quarter.
- 2021
 - If 500 or less average FTEs in 2019, credit is based on qualified wages and/or health plan expenses paid to all employees, whether they worked or not.
 - If more than 500 average FTEs in 2019, credit is based on qualified wages and/or health plan expenses paid to employees for time they did not provide services during the calendar quarter.

If you have questions about claiming this credit for your business, please contact us.

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