AVMD News

Volume 11, Issue 2
January, 2021

AVM DeMars CPAs

Employee Retention Credit - Well Kept Secret

This week banks will begin taking applications for the Paycheck Protection Program (PPP) Round 2. Most business are aware that that this beneficial program has been renewed, and are busy working with their accountants and bankers in order to apply for funding.

In a somewhat lesser known and lesser publicized section of the Consolidated Appropriations Act, 2021, there have been significant enhancements to the Employee Retention Tax Credit (ERC) available to employers under the CARES Act. The CARES Act originally introduced this tax credit back in March, 2020. The original program contained many hurdles for employers to clear in order to benefit from these provisions. The changes in the ERC are primarily in the areas of eligibility, tax credit amount, and coordination with PPP funding.

Eligibility – The CARES Act originally provided employers who were eligible to take advantage of EITHER the ERC or the PPP Loan, but not both. Many employers opted to take advantage of the PPP Loan Program as the relief provided was greater than the benefit of the ERC.

The new Act now allows employers who received a PPP Loan to also take advantage of the provisions of the Employer Retention Credit. This could be a sizable benefit to qualifying employers.

To qualify, businesses must have sustained either a full or partial suspension of their business operation due to a lockdown order in 2020 or sustained a quarter over quarter decline of 20% or more in their gross receipts from 2019 to 2020. Many additional businesses will be eligible for this credit due to the lowering of the bar from the originally required 50% reduction in gross receipts.

Tax Credit Amount – Originally, the law allowed a tax credit of 50% of qualified wages paid to an employee, plus the cost of continuing providing health benefits to the employee from March 12, 2020 through December 31, 2020. The credit was subject to a cap of $5,000 per employee for all qualified wages paid during 2020. ($10,000 wages per employee times 50% tax credit rate)

The new law, effective January 1, 2021, increases the tax credit percentage, changes the period of applicability, and increases the dollar amount of the credit. Qualified wages now include wages paid after March 12, 2020 through July 1, 2021, extending the period by 6 months. The tax credit is now 70% of qualified wages plus the cost of continuing health benefits subject to a cap of $7,000 per employee for all qualified wages paid through July 1, 2021. ($10,000 wages per employee times 70% tax credit rate).

A tax credit, as compared to a tax deduction could be far more valuable to the employer. A tax credit represents a direct dollar for dollar reduction in your actual tax or an increase in your refund, whereas a tax deduction is a reduction in your income which is then subject to your tax rate. If eligible, these provisions could result in sizable refunds to employers.

Coordination of PPP Funding – Originally, employers were not eligible for the ERC if they received a PPP loan. The Consolidated Appropriations Act, 2021, provides that even if an employer received a PPP loan, they are now eligible for ERC with certain caveats. A credit may not be claimed for wages paid with the proceeds of a PPP loan that have been forgiven. This prevents double dipping by using the same wages in each calculation. However, wages paid in excess of either the 8 week period or 24 week alternate period used for PPP loan forgiveness may be used in the calculation of the Employer Retention Credit. There is a significant opportunity here for qualifying employers. Kindly contact us for this analysis and application.