



WILLIAM VAUGHAN
COMPANY

Employee Retention Tax Credit

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A close-up photograph of a person's hands working at a wooden desk. The person is wearing a light blue dress shirt and a dark tie. Their right hand holds a black pen over a large black calculator. Their left hand rests on a document with a grid pattern. The desk is cluttered with various items: a white coffee cup on a saucer, a pair of black-rimmed glasses, a spiral-bound notebook, and another calculator. The text "Employee Retention Tax Credit" is overlaid in white, bold, sans-serif font across the center of the image.

Employee Retention Tax Credit

Changes to the 2020 ERTC Program

- > Allows businesses to retroactively both borrow a PPP loan and claim an Employee Retention Tax Credit for 2020 but not on the same dollars of payroll costs
- > Wages and health care costs for which a taxpayer claims an ERTC are not eligible to be forgiven as part of the PPP process
- > Group health plan expenses can be qualified wages even when no other wages are paid to employee

2020 Employee Retention Tax Credit

- > The 2020 Employee Retention Tax Credit is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees after March 12, 2020, and before January 1, 2021.
- > For each employee, wages (including certain health plan costs) up to \$10,000 can be counted to determine the amount of the 50% credit.
- > Maximum of \$5,000 per employee for 2020

How to Qualify



- > In order to qualify for the ERTC an employer must satisfy one of the following conditions:
 - Full or partial suspension of business operations during any calendar quarter due to government orders limiting commerce, travel, or group meetings as a result of COVID-19, OR
 - a significant (>50%) decline in gross receipts in a 2020 calendar quarter in relation to the same quarter in 2019.
- > If the significant gross receipts decline qualification is met, every quarter thereafter is considered a qualifying quarter until the first day of a calendar quarter following a quarter in which gross receipts returned to at least 80% of the gross receipts in the same quarter during 2019.

Example

Gross Receipts				
	Q1	Q2	Q3	Q4
2019	\$100k	\$150k	\$100k	\$120k
2020	\$45k	\$112k	\$83k	\$90k

- > The employer would qualify for the ERTC beginning in quarter one since gross receipts decreased 55%.
- > Quarter four would not be a qualified quarter since gross receipts rose back to 83% of the prior year's receipts during the 3rd quarter.

Gross Receipts



- > Gross receipts include total sales (less returns and allowances) and income from services provided. Receipts also include interest, dividends, rents and royalties and sale of assets (reduced by the basis of such assets)
- > Extrapolate the receipts for the quarter in 2019 during which a business started to determine that quarters receipts
- > Use the extrapolated “start-up” quarter in 2019 for any previous 2019 quarters

Fully or Partially Suspended

- > The orders must come from the federal government, or a state or local government that has jurisdiction over the business;
- > The orders must limit commerce, travel, or group meetings due to COVID-19; and
- > The orders must affect an employer's operation of its trade or business.
- > This does not include
 - Advice/encouragement provided by public officials
 - Individual business choices

Qualified Wages 2020



Averaged > 100 Full-Time Employees in 2019

- Wages (including certain healthcare costs up to \$10k per employee) paid to employees that are not providing services because operations were suspended or due to the decline in gross receipts.

Averaged \leq 100 Full-Time Employees in 2019

- Wages (including certain healthcare costs up to \$10k per employee) paid to employees during the period operations were suspended or the period of the decline in gross receipts, regardless of whether its employees are providing services.

Full-Time Employee

- An FTE is an employee who, for any calendar month in 2019, had and average of at least 30 hours of service per week or 130 for the month.
- Use the average for 2020 if not in business in 2019

Qualified wages, up to the amount of the credit, may NOT be deducted for income taxes

Qualified Wage Exceptions

- > If you terminate an employee and pay severance, those are NOT qualified wages.
- > If you have more than 100 FTEs, payments made for any pre-existing accrued vacation, sick time, or other personal leave wages are not qualified wages, as they were “accrued” at a time when the employee was providing services.
- > Qualified wages are capped at pay equivalent to what the employee would have been paid during the 30-day period immediately before the eligible quarter.
- > Wages paid to a related individual – or in the case of a corporate employer, someone related to the majority owner of the corporation – are not eligible wages.
- > Any qualified family leave or sick leave wages paid pursuant to the Family First Coronavirus Relief Act are NOT eligible wages.



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Aggregation Rules

- > In determining whether a business has been partially or fully suspended, if ONE business in the group satisfies this requirement, then all businesses are treated as having been partially or fully suspended.
- > In computing whether a business has experienced a > 50% drop in receipts, the receipts of ALL aggregated businesses must be taken into account.
- > In determining whether the business had more than 100 FTEs for 2019, employees for all aggregated businesses must be added together.



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Claiming the Credit

- > In order to claim the new Employee Retention Credit:
 - Eligible employers will report their total qualified wages and the related health insurance costs for each quarter on their quarterly employment tax returns (Form 941 for most employers) beginning with the second quarter.
 - The credit is taken against amounts that otherwise would have been deposited, including federal income tax withholding, the employees' share of Social Security and Medicare taxes, and the employer's share of Social Security and Medicare taxes for all employees, up to the amount of the credit.
- > Eligible employers can also request an advance of the Employee Retention Credit by submitting Form 7200.

Changes to the 2021 ERTC Program

- > Extended the program to September 30, 2021
- > 50% of qualified wages is now 70%
- > \$10,000 qualified wage cap for all of 2020 is now \$10,000 per quarter
- > Significant (>50%) reduction in gross receipts is now greater than 20% reduction comparing 2021 to same quarter of 2019
 - Can elect to compare Q4 of 2020 to Q4 of 2019 (greater than 20% reduction) to determine eligibility of Q1 2021.
 - Can do the same for Q2 2021
- > 100 FTE's is now 500 FTE's
- > 30-day rule preventing bonuses is removed
- > **These changes apply only from 1/1/2021 to 9/30/2021**

Recovery Startup Business



- > A business that started on or after February 15th, 2020.
- > The annual gross receipts don't exceed \$1 million for the individual 2020 and 2021 tax years.
- > Applies to Q3 and Q4 of 2021.
- > Maximum per quarter is \$50,000.

Connect with us.



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