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CPAs & BUSINESS ADVISORS

What you need to know about the Employee Retention Credit?

The Employee Retention Credit (ERC) was enacted as part of the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) on March 27, 2020. The ERC is available for eligible wages paid between March 12, 2020 and September 30, 2021. The ERC is a fully refundable tax credit that is claimed on a company's quarterly IRS form 941. There are two ways to become eligible for the ERC:

1. Your business experienced a reduction of gross receipts in 2021 or 2020 when compared to the gross receipts of the same quarter in 2019.
 - a. To become eligible for the credit in any given quarter in 2020 the reduction in gross receipts must be 50% or more when compared to the same quarter in 2019.
 - b. To become eligible for the credit in any given quarter in 2021 the reduction in gross receipts must be 20% or more when compared to the same quarter in 2019.
2. The second way to become eligible for the ERC is to have experienced a full or partial suspension of operations due to a government order.
 - a. Businesses that were deemed essential were permitted to remain open but may be eligible for the ERC if they can prove that a more than nominal portion of their business was affected by a government order. IRS notice 2021-20 later defined a more than nominal portion as not less than 10%.

For a large employer, defined as those having more than 100 full-time equivalent employees for 2020 or more than 500 full-time equivalent employees for 2021, the only qualifying wages are those wages, including certain health care costs, paid to employees not providing services because operations were suspended or due to a decline in gross receipts.

If a company is eligible for the ERC, the credit is calculated differently for quarters in 2020 versus quarters in 2021.

1. For 2020 the credit is equal to 50% of wages up to \$10,000 of wages per employee for a maximum credit of \$5,000 per employee.
2. For 2021 the credit is equal to 70% of wages up to \$10,000 of wages per quarter per employee for a maximum of \$7,000 per employee per calendar quarter.

There are several other factors to take into consideration to determine eligible for and calculating the ERC, so please contact your CPA or tax advisor.

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