



D. H. SCOTT & COMPANY
CERTIFIED PUBLIC ACCOUNTANTS
A LIMITED LIABILITY PARTNERSHIP

Employee Retention Credit

The Employee Retention Credit (ERC) is a refundable tax credit against certain employment taxes equal to 50% of the qualified wages an eligible employer pays to employees. The credit applies to qualified wages (including certain health plan expenses) paid during a qualified period or any calendar quarter in which operations were suspended.

Originally, recipients of Paycheck Protection Program (PPP) funds were ineligible to claim Employee Retention Credit, however the ***COVID Relief Act signed on December 27, 2021 retroactively extends eligibility for ERC to PPP borrowers for the period March 12, 2020 to December 31, 2020.***

A taxpayer may claim both the ERC and borrow a PPP loan, but may not claim the same wages or health care costs. Original rules of ERC per CARES Act apply for ERC claimed in 2020. Additionally, the ERC was extended from December 31, 2020 to June 30, 2021. Rules have been added that allow new employers, who were not in an existing business for all or part of 2019, to take the credit. For 2021, additional changes are made to the calculation and eligibility rules for the credit.

These changes do not apply to retroactive credits claimed for 2020.

	2020	2021
Credit amount	Credit allowed of 50% qualified wages. Qualified wages paid to any one employee capped at \$10,000 for ALL quarters.	Credit allowed of 70% qualified wages. Qualified wages paid to any one employee capped at \$10,000 for ANY quarter.
Qualified Employer	Business experienced either: <ul style="list-style-type: none"> the full or partial suspension of the operation of their trade or business during any calendar quarter because of governmental orders due to COVID-19, or a quarter in which gross receipts were less than 50% of the receipts in the same quarter in 2019. 	Business experiences any quarter of the first half of 2021 in which gross receipts is less than 80% of the same quarter in <u>2019</u> .
Qualified Wages	<ul style="list-style-type: none"> If the business had MORE than 100 FTEs, only wages paid to employees <i>not to provide services</i> during an eligible quarter were “qualified wages.” (i.e. employees paid not to work) If the business had fewer than 100 FTEs, ALL wages paid to employees during an eligible quarter (or eligible part of quarter if the business were only shut down for a portion of the quarter) were “qualified wages.” 	Increases the threshold number of employees before a change in treatment arises from 100 to 500.

How to Begin the Credit Process (for retroactive 2020 credits)

1. Review accounting records to compare calendar quarters 2019 to 2020 for any reduction in gross receipts of 50% or more in 2020 as compared to 2019.
2. If step 1 does not apply, determine if your business was partially or fully suspended during any calendar quarter in 2020.
3. If either of Step 1 or Step 2 apply, review payroll expenditures for 2020. If you received a PPP loan, determine the amount of payroll expenses between the period of March 12, 2020 and December 31, 2020 in excess of PPP loan proceeds.
4. Determine the number of full-time equivalent employees prior to March 12, 2020 (in order to determine which type of qualified wages apply).
5. The Worksheet 1 included in the Form 941 instructions (as revised in July 2020) provides calculation instructions for the employee retention credit on Step 3. This amount is then transferred to the 941 for the quarter in which the credit is applicable.

If you feel that the retroactive credit applies to your business, an amended quarterly form 941 (called a 941-X) will need to be filed. Please reach out to us for any assistance in completing these amended forms.

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