The Employee Retention Credit is an important, and often overlooked, part of Covid-related relief legislation for businesses. From its inception in the original CARES Act back in March of 2020, the ERC has been expanded and enhanced twice in subsequent acts from Congress. Helping you understand how the ERC works and the significant financial relief it can provide your organization is the purpose of this short post.

As it stands today, the Employee Retention Credit provides payroll tax credits equal to 70% of up to $10,000 **per quarter per employee** of qualified wages paid in 2021 and up to 50% of $10,000 per year per employee in 2020. And yes, you can go back now to claim your ERC credit for 2020 even if you received a PPP loan (which used to be a disqualifier but is no longer).

The credit is first used to reduce federal payroll taxes owed for the quarter in question, and then, if the credit exceeds that amount, results in a check from the IRS back to your business.

Businesses qualify if they have had more than a 20% decline in gross receipts for 2021 (50% decline for 2020) as compared to the same quarter in 2019 (see first bullet point for additional detail).

Importantly, revenue decrease is NOT the only qualifier. Employers are eligible for the credit for any quarter in which they have either had to fully OR partially suspend operations because of governmental orders related to COVID-19 which more than nominally impacted the business.

The ERC is now available to any employer of less than 500 employees. Eligibility differs a bit depending on whether your organization is under 100 employees or under 500 employees.

A few more details on the ERC:

- For 2021 only, you can use the receipts from the prior quarter compared to current quarter 2019. For example, if Q1 202 (prior quarter at the time of this post) gross receipts are less than 80% of Q2 2019 ("current quarter" of this post is Q2) then you would qualify for ERC in Q2 2021.

- With regards to the "more than nominally impact" test for partially suspended operations, the IRS has clarified this to mean impacting your business by more than 10%.

- There are a lot of moving parts used to calculate the retroactive ERC amount for 2020. For example, no wages paid via the PPP loan proceeds can be used to calculate ERC Credit, and the work status of the employees during the time of shutdown or revenue drop affects the calculation of credit eligibility.

Here are the basic steps to see if you can take advantage of this potentially significant credit, and if so how to go about it:

1. Analyze your business quarter by quarter regarding the 20%/50% decline in revenue relative to 2019 or the business disruption by government order provision.

2. Run your payroll and headcount numbers for 2019 to ensure you are under 500 (or 100 for 2020) full time employees.

3. Amend past 941 tax returns or prepare your current 941 return (as the case may be), to claim the available credit.

4. File form 7200 for the current quarter for any amount of the credit in excess of your 941 taxes.

5. Document, document, document your supporting evidence for qualifying for and claiming the ERC in any given quarter.

If you would like to discuss the ERC further, or need help with some of the steps outlined above, please do not hesitate to contact Steve Harmon of PayNorthwest for assistance. He can be reached at 360-840-0078 or steveh@paynorthwest.com