



New Employee Retention Tax Credit for Small Businesses Available Q1 and Q2

Up to \$14,000 per employee

Talk to your tax professional or bookkeeper about taking advantage of the expanded Employee Retention Tax Credit (ERTC). If you don't have a CPA or tax professional, you can check [here](#) or [here](#) to find one in your area.

Enacted in December 2020, the new COVID-19 economic recovery law, the Consolidated Appropriations Act (CAA) of 2021, extends the ERTC program through June 30, 2021, offers a more generous tax credit, and eliminates a previous restriction for those with a Paycheck Protection Program (PPP) loan.

What is it?

- The ERTC is a refundable, advanceable tax credit of up to \$7,000 per employee, per quarter.
- In 2021, the maximum credit per employee is \$14,000 (\$7,000 in Q1 + \$7,000 in Q2).
- In 2021, the amount of the tax credit is equal to 70% of the first \$10,000 (\$7,000) in qualified wages per employee in a quarter (\$7,000 in Q1 + \$7,000 in Q2).
- Employers claim the ERTC by withholding payroll taxes for the amount of qualified employee wages. Because the tax credit is refundable, if your withholdings do not cover the entire tax credit, the IRS will send you a check for the remaining amount.

Eligibility:

- Employers with 500 or fewer employees. (different rules for large employers)
- Employers who have experienced a 20% or more decline of gross receipts in a quarter compared to the same quarter in 2019.

FAQ:

I would like to claim the ERTC for 2021 wages. What do I do?

We are waiting for the IRS to clarify next steps, but we anticipate the IRS will likely use [Form 7200, Advance of Employer Credits Due to COVID-19](#), the same ERTC form used in 2020.

It is important to note that the December 2020 recovery bill extended the ERTC through June 30, 2021, so this credit applies to 2021 wages in Q1 and Q2.

What are qualifying wages?

Qualified wages are wages/compensation subject to FICA taxes paid to employees, as well as qualified health plan expenses. Note the same wages/compensation cannot be used to qualify for forgiveness of a PPP loan or to claim Families First Coronavirus Response Act (sick leave or family leave) tax credits.

Wages paid to related individuals are not eligible for the Employee Retention Credit. (more information [HERE](#), Q#59)

I am considering applying for a second-draw PPP loan. Can I claim the ERTC for 2021 wages?

Yes. The December 2020 recovery bill allows PPP loan recipients to access the ERTC and vice versa. The previous prohibition on using both programs has been removed. However, businesses cannot claim the ERTC on wages paid for by the PPP loan.

Employee Retention Tax Credit Overview			
	2020 Rules	New rules: 3/13/2020-12/31/20	New rules: 1/1/21-6/30/21
Interaction with PPP	No ERTC if received a PPP loan	Taxpayers that receive a PPP loan can claim the ERTC, excluding wages paid for by a PPP loan.	
Maximum Tax Credit per Employee	\$10,000 for 2020	\$10,000 for 2020	\$14,000 for 2021
Tax Credit Calculation	50% of the first \$10,000 in qualified wages per employee in a quarter	50% of the first \$10,000 in qualified wages per employee in a quarter	70% of the first \$10,000 in qualified wages per employee in a quarter
Eligibility	100 employees or less	100 employees or less	500 employees or less
	50% reduction in gross receipts a quarter compared to same quarter in 2019 OR subjected to mandatory partial or full shutdown		20% reduction in gross receipts a quarter compared to same quarter in 2019

I received a PPP loan last year. Can I claim the ERTC on 2020 wages?

Yes. The December 2020 recovery law allows first-draw PPP loan recipients to go back and claim the ERTC on 2020 wages. However, please note the ERTC credit for 2020 wages is limited to 50% of the first \$10,000 in qualified wages per employee in a quarter. The maximum credit per employee for 2020 is \$10,000. The more generous credit outlined above is for Q1 and Q2 in 2021.

Various CPA firms have recommended the steps below for first-draw PPP loan recipients interested in claiming the ERTC:

1. Determine your eligibility. Was your business mandated to shut down? Or did your business experience a significant decline in gross receipts during the calendar quarter (less than 50% of its gross receipts for the same calendar quarter in 2019)?

2. If you answered yes to either question, review 2020 wages. Are you able to apply for PPP loan forgiveness and claim ERTC on different wages? **You cannot claim PPP loan forgiveness and ERTC on the same wages.**
3. If yes, your business has 2020 wages eligible for ERTC, then prepare estimates of ERTC for 2020.
4. On claiming the ERTC for 2020 wages, continue with the preparation of your 2020 fourth quarter [Form 941](#), but consider waiting to file in the hopes that the Treasury Secretary is able to provide guidance before February 1. That said, the Department of Treasury may direct employers to complete [Form 941X, Adjusted Employer's Quarterly Federal Tax Return of Claim for Refund](#). Or the Department of Treasury may create a new form specifically to claim the ERTC for 2020 wages.

Many taxpayers have completed or are close to completing their 2020 payroll computations and are now wondering, how can Congress expect them to make this determination with their payroll provider when there is no guidance, and the filing date is less than a month away? **The Department of Treasury will need to provide guidance on this issue.**

Additional resources: [IRS Employee Retention Tax Credit website](#) and [FAQs](#). Note: these resources have not yet updated to reflect the ERTC changes enacted in the CAA.

Dated January 18, 2021
