Claiming Employee Retention Credit (ERC):

C&A Financial

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Thank you!

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Once upon a time…

Let's gather round the campfire for a story

1. In January or February or so of 2020, the Covid virus hit America (and the world)
2. In response, people stopped going out and about and became increasingly isolated in an effort to reduce exposure
3. That was followed by most state and local governments restricted the movement of people and locked down or limited the operation of many businesses
4. Congress became concerned about the financial well-being of the economy, businesses and people
5. In response, Congress threw hoards of money at businesses and the people in an effort to keep all afloat
6. One of the batches of money Congress threw at businesses was the Employee Retention Credit (ERC)
7. ERC is a credit against federal payroll tax (for qualifying wages paid from 03/13/20 though 12/31/21) (1Q 2020 thru 4Q 2021 w/ limitation)
8. Purpose of ERC: To help qualifying employers be able to keep employees on payroll

Players in the game…

1. Taxpayers who filed claims and are waiting for refunds

2. Taxpayers who have not yet filed ERC claims (have not gotten around to it) (or don't even know they can)

3. Taxpayers who believed they did not qualify, but are now wondering whether they do (perhaps are being hustled and told they do qualify)

4. Those who thought they qualified and claimed ERC, but now are not so sure (and are thinking about stepping away) (should I stay or should I go?)

5. Those who think it's too late to apply (but, it's really not)

6. Those who filed fraudulent claims (either now being prosecuted and/or waiting to see if and how long they'll be in federal prison)

7. Outside ERC solicitors (sweatshops) aggressively and relentlessly pushing America toward claiming ERC

What is ERC?

1. ERC is a refundable tax credit against federal payroll tax
2. Upto $5k for 2020 and $21k for 2021 (if you qualify)
3. It is for qualifying wages paid from 03/13/20 though 12/31/21 (Q1 2020 thru Q4 2021 w/ limitation)
4. Purpose of ERC: To help qualifying employers be able to keep employees on payroll
5. Qualification is reduction in gross income or business was partially or fully shutdown

What compensation qualify?

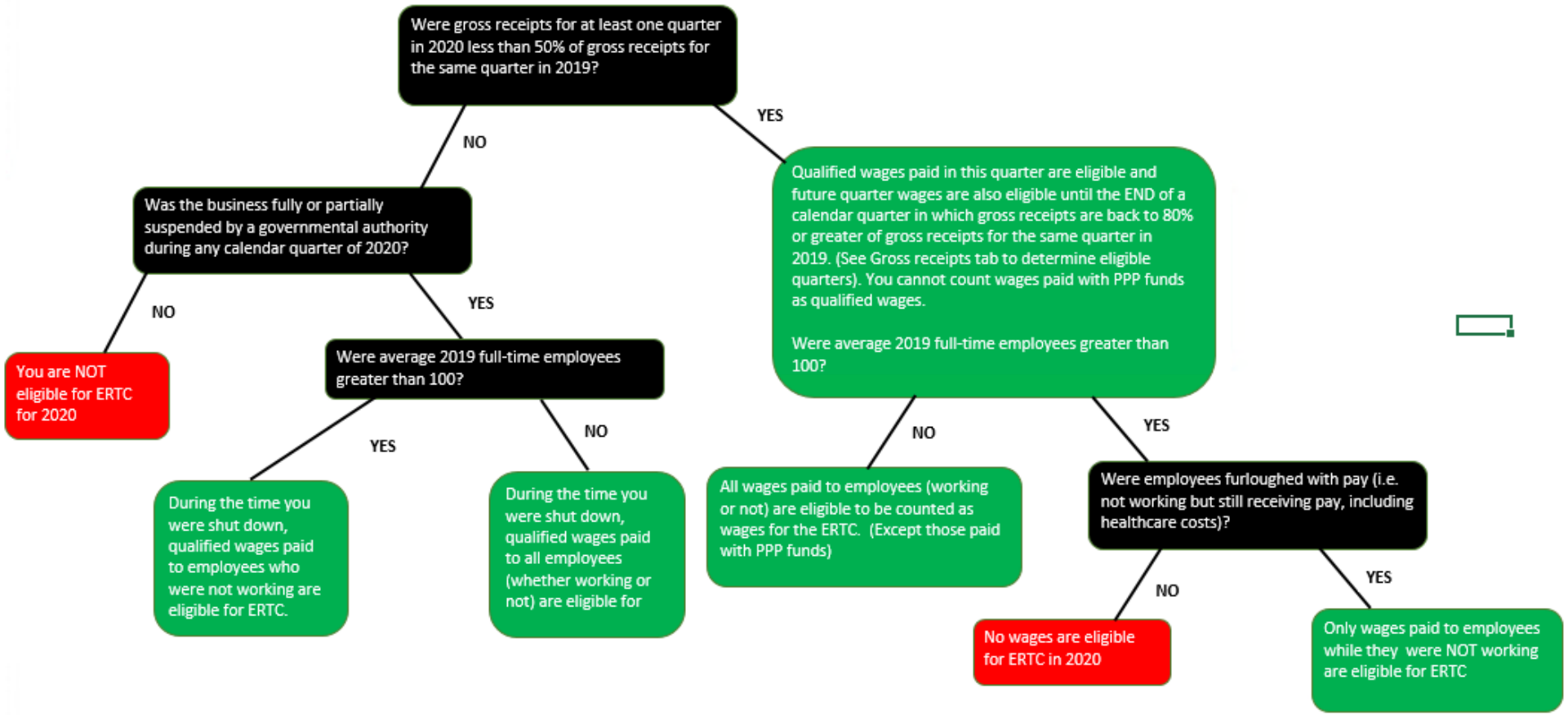
Did the organization pay W-2 wages or (pay for) health insurance in 2020 and/or 2021?

1. Only employee W-2 wages (and qualifying health insurance costs*) (also included in definition of wages) qualify for ERC

2. Only employee W-2 wages* actually paid from 03/13/20 through 12/31/21) may qualify for ERC
    a. Wages merely accrued do not count for ERC
    b. Wages paid in 2019 and prior don't qualify for ERC
    c. Wages paid from 01/01/20 through 03/12/20 don't qualify for ERC
    d. Wages paid after 12/31/21 don't qualify for ERC

*Sole Proprietor and family wages and net earning do not qualify for ERC
*S-corp owner and spouses and relatives' wages do not qualify for ERC

2020 Eligibility



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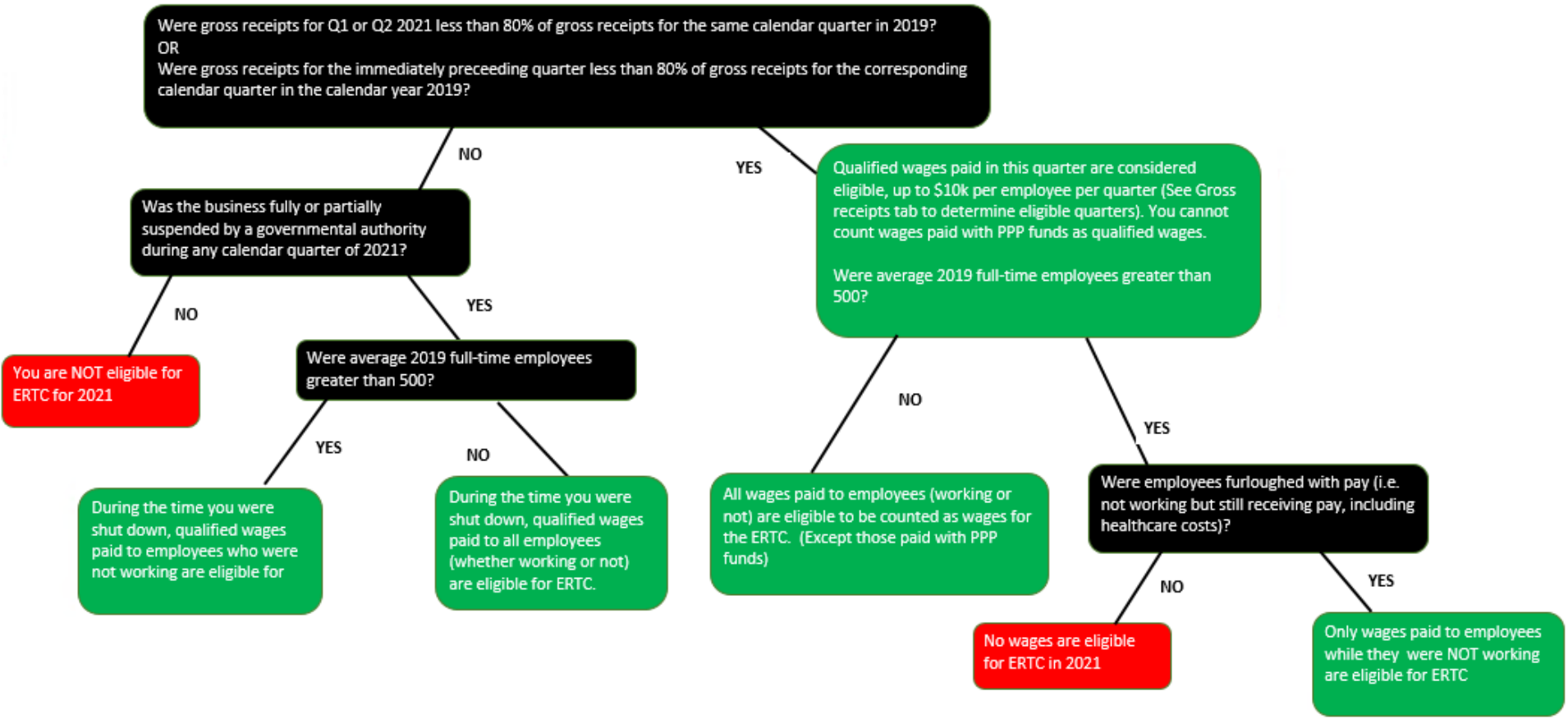
2021 Eligibility (Q1 & Q2)



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Fully or Partial Suspension

Fully suspended

- Businesses closed in full or part by Govt shut down order
- Most masjids and schools qualify

Partial Suspended

- Disruption in supply chain
  - *Essential business may have full or partial suspension if business's suppliers unable to make deliveries of critical goods or materials due to govt order that causes supplier to suspend operations*
- Reduced Hours
- Reduction in goods or services
- Unable to travel or attend conventions

How much ERC do I qualify for?

1. For 2020, a max of $10,000 wages per year per employee earn ERC at a 50% rate (max 2020 ERC = $5,000/'employee/year)

2. For 2021, a max of $10,000 wages per quarter per employee earn ERC at a 70% rate (max 2021 ERC = $7,000/employee/quarter x 3 quarters = $21,000/'ee/year)

3. 4th quarter 2021 (Q4 2021) ERC is possible at $7,000/employee if business is a recovery startup business (but, entire business is limited to $50,000 per eligible quarter as a recovery startup business)*

Max ERC available:
For most employers, $26k/employee for both 2020 & 2021
For qualified recovery startup business $33k is possible

*The term 'recovery startup business' means any employer — "(A) which began carrying on any trade or business after February 15, 2020

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Affects on income tax return

- Income tax deduction for wages reduced by amount of credit taken
- If wages paid in 2020, credit received in 2022, reduce wages on 2020 return
  - Amend 2020 S-corp or partnership tax return and issue new K1s
  - Owners amend 2020 personal tax returns
  - Owners pay add'l taxes due to reduced K1

Next steps:

How to apply?

File 941x for any quarters that you qualify for

When to apply?

As soon as you can

You have 3 years from the Q1-2020 through Q4-2021

For 2020, last day to file claim for ERC refund 04/15/24

For 2021, last day to file claim for ERC refund 04/15/25

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Questions

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