A Comprehensive Guide on Employee Retention Tax Credit Updates

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ERC / ERTC FINANCIAL SERIES

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A COMPREHENSIVE GUIDE ON EMPLOYEE RETENTION TAX CREDIT UPDATES

The Employee Retention Credit (ERC) has proven to be one of the most effective tax measures for assisting small and medium companies, as well as tax-exempt organizations, in weathering the economic effects of the pandemic for distressed employers.

Approximately 70% to 80% of small and medium businesses were expected to be eligible for the ERC, according to IRS management. Currently, the actual number of enterprises and organizations applying for the ERC has been significantly lower.

What are the Employee Retention Credit Updates?

As part of the Coronavirus Aid, Relief, and Economic Security Act, the Employee Retention Credit (ERC) is a refundable payroll tax credit for "qualified wages" paid to retained full-time workers from March 13, 2020, through December 31, 2020. (CARES).

The ERC's purpose is to encourage businesses to keep employees on the payroll even if they are unable to work due to the coronavirus pandemic within the time period covered. Here's everything you need to know as a business owner to make the most of this new credit.

Key Outcomes:

The new Employee Retention Credit (ERC) allows you to claim a refundable credit of up to $5,000 for each full-time equivalent worker you maintain between March 13, 2020, and December 31, 2020, and up to $14,000 for each employee you keep between January 1, 2021, and June 30, 2021.

You qualify as an employer if your gross receipts for the same quarter in 2019 (for 2020) were between 50% and 80%. (for 2021).

You might use the 2020 quarters if you were not in business in 2019.

You can get your credit right now by decreasing payroll taxes reported to the IRS.

The new law, which goes into effect on March 27, 2020, permits businesses who took out Paycheck Protection Program (PPP) loans to claim the ERC for eligible salaries that aren't recognized as payroll expenditures in order to get the PPP debt canceled.

The Taxpayer Certainty and Disaster Tax Relief Act (TCDTR) of 2020, which has been passed into law on December 27 as part of the Consolidated Appropriations Act (CAA) of 2021, changes and expands the Employee Retention Credit (ERC), as well as for wages earned during the first part of 2021. Check out Can You Get Employee Retention Credit And PPP Loan.

Employee Retention Tax Credit Update

Who could have imagined how important the Employee Retention Tax Credit would become in December 2020 for many businesses?

With the approval of the Dealing on December 28, 2020, the Employee Retention Tax Credit, or ERC, was expanded to cover businesses that have previously received PPP funds. As a result of this transition, thousands of businesses have registered for ERC credits in 2020 and 2021, alleging sales decreases, business limitations, and/or supply chain disruptions as acceptance criteria.

As a consequence, large refund checks have been given to businesses for the 2020 and 2021 taxable years, with several on the way.

This credit has been a lifeline for many firms currently suffering from the consequences of COVID-19. As the year 2021 comes to an end, we wanted to provide a summary for anyone who is still concerned about ERC. Even while we are seeing more returns completed and checks received, there are still more questions than answers concerning the ERC credit.

On March 27, 2020, the Employee Retention Tax Credit was formed by the Coronavirus Aid, Relief, and Economic Security Act. It was revised in December 2020 to allow many businesses to take advantage of it, even if they had already received Paycheck Protection Plan (PPP) loans for 2020 and 2021.

As per a new update to the system, businesses were qualified for up to $28,000 per worker for 2020 and 2021 together.

For the whole year of 2021, the ERTC has indeed been prolonged. Employers could previously claim it just for the first and second quarters of the year, but they may now claim it for all four. As a result, employers are more likely to earn much more credits.

Employers would be allowed to claim up to 70% of a worker's qualified compensation, with a quarterly cap of $10,000. This translates to a minimum of $7,000 every quarterly per worker for the year 2021, or $28,000 in payroll taxes for each employee.

Learn more about The Employee Retention Tax Credit Reinstatement Act.

Employee Retention Credit Updates

Employers that are experiencing severe financial difficulties may be eligible for a higher ERTC.

A company that qualifies as "severely financially distressed" in 2021 can designate all profits supplied to all of its workers (regardless of how many they have) as qualified wages.

This means they may claim 70% of all of these incomes as ERTC, thus doubling the tax credit. Employers will be allowed to claim an unlimited number of tax credits if they qualify. Between the third and fourth quarters of 2021 and the corresponding quarter in 2019, "severely distressed employers" should demonstrate a 90 percent decline in gross receipts.

Check out more about How to Report Employee Retention Credit on Financial Statements.

Employee Retention Credit Latest News

After passing the Senate by a vote of 69–30 in August, the House passed the Infrastructure Investment and Jobs Act by a vote of 228–206.

The infrastructure package has few tax effects, but the fiscal year 2022 reconciliation bill proposal, which Congress is now reviewing, might include more major adjustments.

Among these are extensions of prior enhancements to the Child Tax Credit or Earned Income Tax Credit (EITC), as well as an expanded premium tax credit, respite from $10,000 state tax deduction threshold, corporate and foreign tax reforms, and limitations on interest expense deductions.

Except for wages paid by a qualified recovery beginning an enterprise, the infrastructure law cancels the Employee Retention Credit (ERC) for salary received after September 30, 2021.

The Coronavirus Aid, Relief, and Economic Security Act (CARES) Act, created the ERC, which was updated by P.L. 116-260, the General Appropriations Act, 2021. The American Rescue Plan (ARP) Act, P.L. 117-2, which was passed on March 11, made the ERC accessible to eligible firms for salaries earned in the third and fourth quarters of 2021; however, H.R. 3684 would eliminate the fourth-quarter extension.

The Internal Revenue Service (IRS) issued instructions for collecting the refund in the final three months of 2021 (Notice 2021-49) but said that it is actively following congressional developments.

Are There Recent Changes to the Employee Retention Credit?

This credit was not available to sole owners with no workers. You must have paid a bona fide salary in 2020 and/or Q1 and Q2 of 2021 to be eligible.

A few points concerning qualified companies may have been addressed by the IRS. The whole list is available here:

FAQ# 59 is the most significant change. Earnings paid to a spouse look to be qualifying wages. Wages received by the following individuals are not qualified:

A child or a child's descendent;
An ancestor of either the father or mother;
A stepfather or mother;
A nephew or niece;
An uncle or aunt;

Furthermore, if the Eligible Employer is a corporation, a connected individual is someone who has a relationship indicated above with someone who owns more than 50% of the corporation's outstanding shares, directly or indirectly.

If the Eligible Employer is not a corporation, a connected individual is any person who has a relationship with an individual who owns more than 50% of the capital and earnings interests in the company, either directly or indirectly. Another example of a daughter includes adding the daughter to the payroll. The salaries of the daughter were not qualified for the ERC under this revised advice. The potential for a complete or partial suspension of business extended to 2020 and 2021.

Is the Employee Retention Credit Still Available?

Despite expiring on October 1, 2021, the Employee Retention Credit (ERC) can still be claimed in 2022. Employers can claim pay retrospectively from March 13, 2020, until October 1, 2021. For many, the credit has grown complicated due to several modifications to initial principles and requirements. Fortunately, no fundamental regulations or deadlines have changed in months.

Despite the lucrative benefits of this tax credit, just 10% of business owners have applied for it for both the 2020 and 2021 tax years.

While many people are unaware of the tax credit, others have been discovered to have disqualified their business prematurely based on absolute criteria.

Furthermore, there are several misunderstandings about the credit statute of limitations. Even if an employer generated more money and additional liability during the pandemic than they had in previous years, they might still be eligible for the ERC.

Is the Employee Retention Credit Still Available for 2020?

Yes, the Employee Retention Credit is still available. The Coronavirus Aid, Relief, and Economic Security Act (CARES) Act allows businesses to establish a tax credit to offset the employment taxes and request reimbursement for any excess credit created through December 31, 2020.

As part of a COVID-19-related Tax Relief Bill of 2020, the Employee Retention Tax Credit (ERTC) is extended until June 30, 2021. It included several changes that came into place on January 1, 2021.

In November 2021, President Biden approved the Infrastructure Investment and Jobs Act (IIJA), thereby eliminating the ERTC for the final quarter of that year.

The usage of ERTC was limited to certain days from March 13, 2020, and September 30, 2021.

What is the Availability of Employee Retention Credit in 2020?

The ERTC's qualification term has been extended by the IRA to September 30, 2021.

Recovery new enterprises, on the other hand, have until December 31, 2021, to claim the Employee Retention Tax Credit (ERTC). Employers might also modify their tax filings to seek the ERTC for all qualifying periods.

The ARPA adds a new eligibility option to the ERTC, allowing recovery-starting businesses to apply.

A recovery starting business is defined as an employer that meets the following requirements:

The firm started operating after February 15, 2020.
Has annual gross receipts of $1 million or less.

Employers who meet these requirements are eligible for the credit without having to shut down operations or cut gross receipts. Every quarter, however, each company is only entitled to a total refund of $50,000.

Any wages paid to an employee during an eligible calendar quarter can be counted as qualified wages by qualifying companies of any size.

The Employee Retention Credit still seems to be accessible to eligible companies for 2020 and the first three-fourths of 2021, but it could no longer be tried to claim among most employers for salaries paid upon September 20, 2021, due to a providing in the Infrastructure Investment and Jobs Act, which was legislated on November 15, 2021.

Until the statute of limitations for Form 941 ends, eligible businesses can claim the credit for salaries earned between March 12, 2020, and October 1, 2021. These updated employment tax returns must be filed by April 15, 2024, for 2020 credits and April 15, 2025, for 2021 credits in most circumstances. We will gladly assist you with analysis if you have not yet determined your eligibility as a qualified employer.

These enterprises must have begun operations after February 15, 2020, and have average yearly gross revenue of less than $1,000,000 for the three-year period preceding the quarter for which the credit is requested.

H.R. 3684, the Infrastructure Investment and Jobs Act was passed by Congress on December 2, 2021. Section 80604 of the act's Title VI Other Provisions oversees the termination of ERC for firms facing shutdown due to COVID-19.

The deadline was pushed out to October 1, 2021, in this part. Wages paid by a recovering startup firm are an exception. The previous deadline of January 1, 2022, was maintained for those firms. Recovery startups no longer need to reduce gross receipts or close their businesses to qualify.

Most firms will be impacted by the deletion of the fourth quarter of 2021, as the maximum credit qualifying amount was reduced from $28,000 to $21,000. Businesses that plan their finances based on the expectation of receiving ERC in the fourth quarter may suffer as a result of the shift.

Check out An Ultimate Guide to 2021 Employee Retention Tax Credit.

Is the Employee Retention Credit Still Available in 2022?

Even though the employee retention tax credits were set to expire on October 1, 2021, if your company qualifies, you may still take advantage of them in 2022. You could apply for a retroactive ERTC refund if you didn't apply for the credit earlier.

2021-49 IRS Notice:

The IRS's Notice 2021-49 clarifies the ERC for businesses who pay qualifying salaries between June 30, 2021, and January 1, 2022. ERC for 2020 and 2021 is covered by the notification.

For the third quarter in 2021, the ARPA formulated the necessary amendments to the ERC:

> Employers will be entitled to a credit if they pay qualifying wages after June 30, 2021, until January 1, 2022.

> Adding "recovery startups" to the list of qualified employers.

The qualifying salaries for "Severely financially distressed employers" have been changed. It also doesn't apply to the ARPA's 5003 Restaurant Revitalization Fund.

The notification answers questions that the Treasury Department and the IRA have been receiving about ERC credits for 2020 and 2021, including:

> How to handle gratuities as part of eligible wages and the 45B credit

> Disallowance of qualifying pay deductions at different times.

If a decrease in employment tax deposits is insufficient to offset the credit, the IRS may make an advance payment to the employer.

The IRS Notice 2021-49 clarifies everything throughout the whole ERTC term. If you discover that your earnings were incorrectly classified as ERTC eligible, you must update Form 941.

If your company recovered from a "significant decline in gross receipts" as defined in the table above it and you can't issue the credit sooner, you may still be eligible for a retroactive ERTC refund.

Even though the remaining employee's tax credits are due to expire on October 1, 2021, your firm may still qualify. Companies have 3 years just after the program's end to assess salaries paid after March 12, 2020, to determine if they are eligible.

For businesses that started in 2019, the quarter in which the business started is considered as the starting point for calculating the quarterly drop until the firm has been operational for a year. For example, a new company that launched in the second quarter of 2019 might use it.

For instance, a new company that started operations in the second quarter of 2019 used that quarterly as the baseline for estimating revenue declines in the first or second quarters of 2020. An approximation of gross revenue for that time period might be used if a firm started operations in the midst of a quarter in 2019.

The Internal Revenue Service (IRS) has published guidance that contains a few rule changes that may make it easier for businesses to meet the employee retention benefit eligibility test.

In IRS Notice 2021-23, "Guidance on the Employee Retention Credit under the CARES Act for first and Second Calendar Quarter of 2021," an alternative quarter election is mentioned.

This option can be used to determine if a drop in revenue of much more than 20% happened in the previous quarter.

If, for instance, sales in Quarter 1 of 2021 did not decline by more than 20% from Quarter 1 of 2019, the corporation can compare revenues in Quarter 4 of 2020 to revenues in Quarter 4 of 2019.

Additionally, IRS Revenue Procedure 2021-33 created a safe harbor that permits employers to deduct certain amounts from gross receipts only for the purpose of determining ERC eligibility.

Restaurant Revitalization Fund under the American Rescue Plan Act of 2021 Shuttered Venue Owners Grants under the Financial Aid to Tough Small And Medium businesses & Facilities Act. Check out How to Apply for Employee Retention Credit.

Conclusion and Summary on Employee Retention Tax Credit Updates

Employee Retention Credit is one of the most important tax incentives offered to businesses that were financially impacted by COVID-19. As a result of numerous updates and amendments to the legislation, many misconceptions about corporate eligibility linger, resulting in the underuse of this tax credit.

If your business was affected by COVID-19 shutdowns, such as government-mandated or a major drop in gross receipts, and you're not sure if you qualify for this tax credit then you should take advantage of ERTC.

Schedule Your Employee Retention Credit Consultation to see what amount of employee retention tax credit your company qualifies for.

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EMPLOYEE RETENTION TAX CREDIT (ERC / ERTC) HELP: CLAIM UP TO A $26,000 REFUND PER EMPLOYEE FOR YOUR BUSINESS

Disaster Loan Advisors™ can **assist your business with the complex and confusing** Employee Retention Tax Credit (ERTC) and Employee Retention Credit (ERC) program.

Depending on eligibility, business owners and companies can **receive up to $26,000 per employee** based on the number of W2 employees you had on the payroll in 2020 and 2021.

The ERC / ERTC Program is a **valuable tax credit you can claim**. This is money you have already paid to the IRS in payroll taxes for your W-2 employees.

Done correctly, **these tax credits or cash refunds can be retroactively claimed for up to 3 years**.

It's encouraged that business owners **obtain professional assistance in going through the complex 941-X amended filing process** to help your company **maximize** the full value of the ERC / ERTC program.

4/15/24 is the Deadline to Amend the 2020 Tax Year.
4/15/25 is the Deadline to Amend the 2021 Tax Year.

Schedule Your Employee Retention Credit Consultation to see what amount of employee retention tax credit your company qualifies for.

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