

# Are Tips Eligible for **Employee Retention Credit?**

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## **ERC / ERTC FINANCIAL SERIES**

CLAIM UP TO A \$26,000  
REFUND PER EMPLOYEE

# ARE TIPS ELIGIBLE FOR EMPLOYEE RETENTION CREDIT?

The Internal Revenue Service (IRS) has addressed several unresolved concerns about Employee Retention Credit (ERC), including how to use tips when determining qualifying earnings and whether the COVID-19 relief fund should be included in gross receipts for ERC.

There are eligibility criteria and computations for the credit through the third and fourth quarters of 2021 and address several issues that have arisen since the initial credit was enacted in March 2020. In addition, the latest updates from IRC have brought some changes with tips in ERC.

## Are Tips Eligible for Employee Retention Credit?

Tips are [eligible for ERC](#) according to IRC. The federal government will provide up to \$5,000 credit to small businesses and other employers in 2020 for their wages and group health insurance. In addition, each employee will receive a credit of up to \$28,000 in 2021 for wages paid and group health insurance provided.

In principle, if an employee receives tips totaling more than \$20 one calendar month, all tips (including the first \$20) will be counted toward that employee's eligible earnings for the retention credit. However, less than \$20 in tips per month are not considered wages for Federal Insurance Contributions Act (FICA) purposes and do not qualify for the Employee Retention Credit.

## Are Tips Eligible for ERC in 2021?

The most recent advice is in the form of Revenue Procedure 2021-33 and Notice 2021-49, which cover a wide variety of subjects, including how employers should consider cash tips when figuring qualifying earnings.

Suppose an employer [claims the Employee Retention Credit retrospectively](#). In that case, it doesn't matter if the credit can be applied to the same earnings for which the company receives the Code Section 45B credit or how the corresponding individual standards are used to determine qualifying wages.

## Do Tips Count for Employee Retention Credit?

The IRS's view that all cash tips confirmed for payroll tax purposes are classified as [wages qualified](#) for 2020 and 2021 ERCs is confirmed by Notice 2021-49, which is a home run for the restaurant business (provided all other requirements are met). For payroll tax reasons, tips received by an employee that exceed \$20 in a calendar month must be reported.

Employers may use the safe harbor described in Reporting Of Tips from the IRS to have the forgiveness of any [PPP loans](#), grants to operators of defunct venues, and funds for restaurant redevelopment excluded from gross revenue.

## Can You Claim ERC on Tips?

To be eligible for the ERC, businesses must submit their total qualifying earnings and the associated health insurance expenditures quarterly (Form 941 for most employers). The employer's portion of the Social Security tax will be deducted from this refundable credit. Employers may choose to keep the value of employment taxes up to the ERC amount rather than deposit it before getting the credit without incurring any fees.

Employers who qualify and have less than 500 full-time employees may also ask for ERTC advance payment using IRS Form 7200. However, employers with more than 500 workers can't acquire an advanceable ERTC. Instead, firms can submit a [941-X](#) request for a retroactive ERTC refund. This form may adjust employment taxes within three years of the first return or two years after the employer's payment date.

Therefore, depending on when they initially filed or paid their company taxes, qualified firms who did not initially claim their ERTC may still be able to do so through 2024. However, employers should know that this retroactive reimbursement is only available for the tax years 2020 and the first three quarters of 2021; the qualifying requirements do not apply for the fourth quarter of 2021 or the tax years 2022 and beyond.

## ERC Tip Wages

**The IRS has verified that tips are admissible as wages, which is good news for restaurants using the employee retention tax credit:**

- Businesses can claim customers' tips above \$20 per month as ERTC-eligible wages.
- Businesses can obtain the ERTC and the section 45B credit for the same pay.

Businesses that qualify may receive \$5,000 or 50% of up to \$10,000 in ERTC-eligible wages in 2020. In 2021, that proportion increased to 70% of the first \$7,000 of up to \$10,000 in qualified salaries earned during each calendar quarter. The U.S. Senate considered a significant infrastructure bill that abolished ERTC on September 30, 2021.

## Are Tips Considered Qualified Wages for Employee Retention Credit?

[The Internal Revenue Service](#) suggested that if FICA covers tips, you can include them as eligible or qualified wages. This implies that all tips would be counted for the Employee Retention Credit if the employee's calendar month's tips were above \$20. Tips that total less than \$20 per month are not eligible for the Employee Retention Credit or FICA wages.

According to the IRS's stance, the disallowance of the qualifying earnings deduction should be issued in the same year that the wages were paid or incurred when a taxpayer claims the ERC, as stated in Notice 2021-49.

Due to this terminology, restaurants that modify their tax year 2020 [Form 941 submissions to claim the ERC](#) could also need to alter their business income tax returns for the year 2022 to reflect the proper amount of wage disallowance.

## How to Calculate Employee Retention Credit from My Tips?

To calculate the ERC from your Tips, you must understand an example. A small firm can receive Employee Retention Credits for 2020 and 2021 if ten employees earn a combined \$40,000 per year. First, the company will get \$50,000 in credits in 2020 (\$5,000 for each employee). Then, the company will obtain \$280,000 in credits in 2021 (\$28,000 for each employee). But, remember that the credit formula operates differently in 2020 and 2021.

The [calculation for the employee retention credit](#) in 2020 is equal to 50% of the pay and group health insurance premiums paid, up to a maximum of \$5,000 per employee. (The 2020 credit calculation only considers the first \$10,000 annual salary and group health insurance cost.) In 2021, the employee retention credit formula was equal to 70% of the wages and group health insurance paid but not more than \$7,000 a quarter.

## Conclusion and Summary Related to Tips Eligibility for Employee Retention Credit

Tips are [eligible for ERC](#) as per the instructions of the IRS if the employee's calendar month's tips were above \$20. In addition, the IRS has stated that tips are wages so employers may claim a credit for the federal employment tax paid on tips.



**Schedule Your [Employee Retention Credit Consultation](#)** to see what amount of employee retention tax credit your company qualifies for.

# 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.**



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to see what amount of employee retention tax credit your company qualifies for.

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