Employee Retention Credit
2021 IRS Guidance

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EMPLOYEE RETENTION CREDIT 2021 IRS GUIDANCE

The Internal Revenue Service (IRS) issued guidance on the Employee Retention Credit in 2021, which purpose is to help and guide business owners who pay qualified wages after June 30, 2021, but before January 1, 2022, it also includes guidance on miscellaneous issues that apply to the Employee Retention Credit in both 2020 and 2021.

The pandemic keeps presenting new challenges to small businesses, and as a result, the government has stepped up to provide financial assistance. Among so many financial resources, the ERC (Employee Retention Credit) introduced by the CARES Act is regarded as one of the government's most significant contributions to date.

Employee Retention Credit IRS Guidance

The IRS Guidance outlines changes to the American Rescue Plan Act of 2021 (ARP) Employee Retention Credit for the third quarter of 2021. Among the modifications are the following:

Allowing qualifying firms who pay qualified salaries before January 1, 2022, to take advantage of the credit of employment tax deposits.

Adding "recovery starting firms" to the criteria of an eligible employer.

For "severely financially troubled firms," changing the definition of eligible salaries, and

IRS Guidance Regarding Queries on Employee Retention Credit

For both 2020 and 2021, the IRS gives advice on a variety of topics relating to Employee Retention Credit.

This guideline replies to a variety of queries concerning the Employee Retention Credit that have been posted to the Treasury Department and the IRS, including:

> The definition of a full-time employee and whether or not full-time equivalents are included in that definition.
>
> The distinction between gratuities and qualifying earnings, as well as their relationship to the Section 45B credit of distressed employers.

Small businesses make up 99.9% of all businesses in the United States. These businesses employ over half of the private workforce. Small enterprises, on the other hand, have been the most hit by the pandemic. Many people are still struggling almost two years later.

The ERC is a type of economic aid designed to assist businesses during the pandemic for health insurance costs for tax-exempt organizations.

It's a refundable tax credit that may be used to offset some employment taxes in order to retain workers on the payroll. Furthermore, as previously stated, the CAA expanded the criteria to enterprises that took out a PPP loan.

Employers who want to use the ERC must consider two primary issues. The first pertains to enterprises that have been ordered to shut down completely or partially during the calendar quarter in question.

Check out How to Apply for Employee Retention Credit.

IRS Guidance Employee Retention Credit 2021

The IRS has addressed certain unsolved issues with the Employee Retention Credit, such as including COVID-19 relief funds in gross receipts and taking tips into account when calculating qualified earnings.

These guidelines were initially published when Revenue Policy 2021-33 & IRS Notification 2021-49 were only posted in August 2021. The expiration of the Employee Retention Credit was expedited with the adoption of the Infrastructure Investment and Jobs Act, and this item has been amended to reflect this.

The Internal Revenue Service (IRS) has released two new guidance papers that address issues with the staff retention credit (ERC) that have plagued taxpayers seeking to claim the credit on their income tax filings for 2020 and 2021.

This updated guidance clarifies the credit's eligibility rules and calculations for the third and fourth quarters of 2021, as well as clarifying certain questions that have emerged since the credit was first established in March 2020.

Taxpayers have been requesting clarity on the impact of additional COVID-19 relief on a business's total income since the ERC was first adopted in 2020.

One option is that an employer's gross receipts fell "significantly" between the quarter in which eligibility was sought to the same quarter in 2019.

Until the IRS released ERC 2021 guidance, citizens were uncertain as to if COVID-19 relief sums received from the government, including such Public-private partnership loan forgiveness, closing down venue controller grants, and restaurant reconstruction and rehabilitation grants, are included in "gross receipts" when determining a "significant decline."

IRS Guidance in terms of New Notices on Employee Retention Credit

The IRS issued Notice 2021-23 on the ERC for 2 quarters of 2021. It's a quick read at 17 pages in comparison to the prior 102-page notice. According to a press release issued by the IRS in conjunction with Notice 2021-23, the Notice details the modifications to the ERC for the first 2 quarters of 2021 as per aggregation rules.

The IRS also announced that in the third and fourth quarters of 2021, it would issue more information guidance on the ERC.

The IRS established a unique safe-harbor rule in Revenue Procedure 2021-33, which permits taxpayers to remove sums received from the COVID-19 relief programs described above from the computation of "gross revenues" only for the purpose of evaluating ERC eligibility.

For all other tax reasons, the funds are still recorded as gross revenues and partial suspension, according to the safe harbor. The guideline suggests that grants or debt forgiveness from any other program will continue to count as gross income for the ERC because it does not name any COVID-19 alleviation programs other than the three described above.

Does the Employee Retention Credit Apply to 2021?

The Employee Retention Credit is applicable in 2021 as the ARPA extended the ERC through December 2021, as well as changed eligibility and other requirements. This Notice expands on the characterization of tips as qualified wages, the disallowance of qualified wages deductions, cooperation with other programs such as PPP loans, and wages provided to majority owners and spouses.

IRS Notice 2021-49 discusses the ARPA's adjustments and answers some frequently asked issues. Starting July 20, 2021, eligible recovery startup enterprises can regard all salaries given to employees as qualified wages, even if they employ more than 500 people.

A recovery startup business is one that started doing business after February 15, 2020, has typical annual gross receipts of less than $1 million, and does not otherwise qualify as eligible employment.

How Does the Employee Retention Credit Work?

As part of the Coronavirus Aid, Relief, and Economic Security Act, the Employee Retention Credit is a refunded income tax credit for "eligible wages" paid to retained full-time workers from March 13, 2020, to December 31, 2020.

The ERC's purpose is to encourage businesses to keep employees on the payroll even if employees are still unable to attend work to the coronavirus pandemic within the time period covered.

> You can get your credit right now by lowering the amount of payroll taxes you pay 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.

Qualification for Employee Retention Credit According to IRS Guidance

Businesses who paid salaries beyond September 30, 2021, and got an initial deposit of the Employee Retention Credit or decreased payroll tax payments in preparation for the credit again for the fourth quarter of 2021 are no longer qualified for the credit as a result of a change in the legislation.

In the fourth quarter of 2021, the limit was applied to recovery-starting enterprises, according to the IRS Guidance.

Employers that are not recovering starting firms and got advance payments for the fourth quarter of 2021 salaries can generally avoid fines if they reimburse those sums before the due date of their appropriate employment tax returns as per the IRS's new guidance.

Employers who decreased deposit balances have until December 20, 2021, for wages received during the 4th calendar quarter of 2021, or are not recovering starting enterprises, will not be subject to a failure to submit penalty on the preserved deposits, according to IRS guidance.

The employer cut payments in anticipation of the Employee Retention Credit in line with the conditions of Notice 2021-24.

The employer's contribution schedule will determine the deposit due dates. For additional guidance and information on Employee Retention Tax Credit and on how to record the tax due, employers should consult the instructions on the corresponding employment tax return or schedule.

If a company does not qualify for release under this Notice, it may provide an explanation in response to a penalty notice, and the IRS will consider a fair cause remedy.

To be declared a qualified employer for the ERC, your company must be regarded as a qualified employer. There are two methods to qualify, although the requirements shift from 2020 to 2021.

In 2020, you can qualify by demonstrating that your sales decreased by more than 50% in any calendar quarter compared to the same quarter in 2019.

Alternatively, you may have been shut down completely or partially as a result of a required order from a federal, regional, or local authority body rather than for voluntary reasons.

If the business qualifies through a reduction in gross receipts, the credit will be given for the full quarter and the next quarter until the drop in gross receipts is less than 20%. If you qualify through a mandatory closure, you can only use employee pay earned during the shutdown, which is computed by the duration rather than the quarter.

You may be eligible for the COVID-19 related Tax Credit for employers in 2021 if you can demonstrate a 20% decline in revenue in any calendar quarter compared to the same quarter in 2019.

Employee Retention Credit Worksheet in 2021

For calculations of the ERC of 2021, an Employee Retention Credit Worksheet should be used.

If your firm's activities were not completely or partially halted due to the pandemic, compare gross revenues, or earnings before deductions, from the current quarter to the same quarter the previous year. These revenues should be less than half of what they were the previous year in 2020. These revenues should be less than 80% of what they were the previous year in 2021.

After that, compute the credit per employee every quarter and keep track of how you arrived at these figures. Because each employee should be compensated in terms of total salaries and remaining under quarterly and overall credit per employee limitations, an Excel spreadsheet may be useful. The total qualifying wages for the quarter can then be calculated.

How to Calculate Employee Retention Credit 2021?

Unfortunately, the Employee Retention Credit (ERC) calculations are difficult, and you won't be able to calculate them correctly without the help of an accountant.

Employee Retention Credit calculations essentially entail extensive spreadsheets to determine which incomes are qualified and which wages are not. Employee Retention Credit (ERC) calculations do not apply to wages paid using PPP funds; hence enterprises that participated in PPP will have more difficult computations.

In 2021, the Employee Retention Credit will be worth 70% of the eligible employee salary received during a calendar quarter. Because eligible wages per employee are restricted at $10,000 every calendar quarter, the maximum credit for eligible earnings paid to any employee in 2021 is $28,000.

Conclusion and Summary on Employee Retention Credit 2021 IRS Guidance

The Internal Revenue Service provided guidance for employers claiming the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), as amended by the Taxpayer Certainty and Disaster Tax Relief Act of 2020. The guidance for the Employee Retention Credit for the first two calendar quarters of 2021 is detailed in this PDF.

The guidance, however, only covers the ERC for eligible wages earned between March 12, 2020, and September 30, 2021, which is really the deadline for most firms.

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.

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

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