

# Employee Retention Credit: How to Calculate?

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# EMPLOYEE RETENTION CREDIT: HOW TO CALCULATE?

The last two years have been quite challenging for everyone, mainly affecting small businesses. The COVID-19 infection wave and the government's restrictions on multiple businesses to contain it was very costly for companies and employees. Do you know there is an incredible way to get instant financial relief for small businesses from Employee Retention Credit?

For some business owners struggling to make ends meet during the coronavirus crisis, a tax credit like the Employee Retention Credit might be more easily accessible than other popular relief options, like loans and grants from the government.

If you don't know how tax credits work, read on to learn more about available tax credits. And, learn how to calculate the employee retention credit to calculate your potential savings.

## Employee Retention Credit: What is It?

It is a relief aid credited by Congress to help businesses suffering from the COVID and further restrictions on economic activities. Decreasing the dismissal rate of employees from the company was another prime reason for launching it.

The scheme is mainly successful in assisting employers in keeping their employees even if they're struggling with a cash crunch. Introduced as the COVID Aid, Relief, and Economic Security ([CARES](#)) Act, it allowed a tax credit of up to 50% for every qualified employee's wage with other conditions of applicability, initially for a period between March 12, 2020, and before January 1, 2021.

Any eligible employer can not get more than a \$10,000 credit in a year for the said period.

However, the competent authorities later increased the percentage to 70% for 2021 and up to \$10,000 per quarter. Every business with qualified wages is eligible to apply under the scheme.

The Employee Retention Credit is available regardless of size, business segment, and annual turnover. It is pertinent to mention that businesses with under 100 and 500 employees have different rules. Check out more about [Everything To Know About Employee Retention Credit – ERC Example](#).

## How to Calculate Employee Retention Credit?

Calculating the employee retention credit is simple yet complicated. All you need is to understand its ways of calculation minutely.

Businesses are eligible to claim credit for both the years 2020 and 2021. In 2020, the credit was increased to 50% of eligible employees paid in a year after March 12, 2020, and before January 1, 2021. Any employers with a maximum of \$10,000 wages were eligible.

Similarly, for 2021, the retention credit is capped at 70 % of qualified employers from January 1, 2021, to December 31, 2021. However, the maximum credit is allowed up to \$10,000 a credit. So an employer can claim a total credit of \$28,000 for the year 2021.

## Employee Retention Credit 2021 Qualifications

Employers may claim a refundable tax credit under the Employee Retention Credit (ERC) to help offset the cost of retaining employees on the payroll.

To receive the ERC credit, a business must qualify as an “eligible employer.” Any controlled group members under IRC section 52 and Section 414 (m) could be eligible for the credit.

There are some slight differences in eligibility criteria for 2020 and 2021.

## ERC Eligibility Criteria Guidance for 2020

During COVID-19, the government put restrictions on commerce, travel, group meetings, and other things that translated into partial suspension or complete suspension of operations or a decline in business. Any employers who found themselves affected due to that may claim ERC.

If the employers saw a decline in gross receipts of up to 50% for any quarter in 2020 compared to 2019, they are eligible to claim ERC for said quarter and next quarter. Read more about [How to Determine Eligibility for the Employee Retention Credit \(ERC\)](#).

Employers remain eligible for every quarter in 2020 unless their gross receipts return to greater than 80% (compared to the same quarter in 2019).

## ERC Eligibility Rules for 2021

The eligibility criteria for 2021 are similar to those for 2020. Any business that suffered economic hardship due to the COVID-19 pandemic and other government COVID-19 orders that its subsequent limitations in economic activity in one quarter or entire quarter becomes eligible.

Furthermore, businesses whose [gross receipts](#) are less than 80% of the gross receipts of the same quarter in 2019.

Though we mostly talked about the features of ERC helping businesses, it is also made to assist employees so that they can manage their daily expenses, health care costs, education, and other obligations.

Due to declining activity, businesses tend to avoid their liability toward employees by cutting wages and other benefits. The federal government took the right step to help recover startup businesses and other small business owners.

Employers can claim their losses through ERC and receive monetary benefits just like earlier.

Full-time workers' compensation and pay are known as "qualified wages." Any business that paid that despite having a bad phase in their operations becomes eligible for the ERC credit.

These earnings include the employer's health plan costs, appropriately deducted from pay. So an employee can get a maximum of \$7000 per quarter, or a total of \$28,000 in 2021.

### How Does the ERC Credit Calculation Work?

Small private businesses suffered heavily due to covid-19 and further restrictions on economic activity. It lets **employers take a 70% credit for up to \$10,000 of an employee's qualifying wages per quarter.**

Furthermore, the maximum credit amount is \$7,000 per quarter and \$28,000 per year in 2021. This credit reduces Employer Social Security taxes.

The Employee Retention Credit Calculation (ERCC) is one of the most successful tax measures for assisting small and medium-sized enterprises. It is also available for tax-exempt organizations to weather the economic effects of the epidemic.

For the first three quarters of 2021, the ERC offers refundable tax relief to companies of up to \$7,000 per employee each quarter (and a reduced benefit for 2020).

## What are the Ways to Claim the ERC?

As per the conditions, businesses have two options: claim the credit for the past period or get advance payments. Employers with more than 500 employees are not eligible for the advance payment.

You may request the advance refund by filling out form 7200. To [claim an Employee Retention Credit \(ERC\)](#), you must start your calculation. First, calculate the total eligible salaries and subtract your quarterly deposit corresponding to health insurance costs.

## What are the Points to Consider While Filling Out Form 7200?

A complete and accurate Form 7200 is a prerequisite for getting advance credit. Make sure to mention the correct Employer Identification Number (EIN). A missing or inaccurate EIN may lead to outright rejection of the form.

In the form, check only one box for the applicable calendar quarter. Check the math on lines 4, 7, and 8 of the form. Most taxpayers check the multiple boxes for Part 1, Line A. It's the wrong way to fill it. Check only one box under Part 1 and Line A.

Complete part II by dollar amounts instead of the number of eligible employees. Part II has multiple lines, so be sure to fill them with an actual dollar amount. Don't forget to sign the form, as the system automatically rejects it without a signature.

## What are the Impacts of ERC on Other Credit, Relief, and Tax Credit Provisions?

Suppose a business becomes an eligible employer and claims credit for ERC. It impacts the other credit and relief provisions as well.

An employer can not claim the benefit under the Employee Retention Credit and the Small Business Interruption Loan under the Paycheck Protection Program. If you avail of ERC credit, the second relief option closes automatically for you.

If the employer is eligible for a Work Opportunity Tax Credit under Section 51 of the Internal Revenue Code for the employee, the employee is not included in this credit. Additionally, Section 45S of the Internal Revenue Code does not allow wages to be considered for the credit for paid family and medical leave for business claimed by the ERC. Qualified employers that received a [tax credit](#) for sick and family leave under the first Coronavirus Response Act cannot include that credit under wages.

### What Do You Mean by a “Significant Decline in Gross Receipts” in the ERC Calculation?

The federal government has made everything clear under the ERC terms and conditions for employers. Under the provision, **“significant decline in gross receipts” denotes** a severe drop in gross revenues in the first calendar quarter of 2020 of more than 50% of what they were in the previous calendar quarter.

The considerable drop in gross revenues ceases in the first calendar quarter after the first calendar quarter. The employer's quarterly gross receipts in 2020 are more than 80% of its quarterly gross receipts in 2019 or the first calendar quarter of 2021.

### What is the Maximum Per Employee Credit Under ERC?

The ERC calculation is based on total qualified wages, including health plan expenses paid by the employer to the employee.

The ERC equals 50 percent of the qualified wages for 2020 and 70% for 2021. The maximum credit amount is for 2021, with a cap of \$10,000 in a quarter.

COVID-19 struck us hard, so ERC is one tool you may utilize to keep your company on track. Besides that, keep looking for other relief measures like the Economic Injury Disaster Loan or the Paycheck Protection Program.

Make sure to keep all your tax, payroll, capital expenditure, and other documents handy to get credit. Every penny matters in this unpredictable world, so maximize your federal return to retain more money. Don't hesitate to contact a consultant for any assistance.

So an employee may obtain up to \$10,000 worth of perks taken into account for all calendar quarters. This results in a maximum credit for eligible earnings provided to each employee of \$5,000. Check out [How to Apply for Employee Retention Credit](#).

### **Is an Eligible Employer Who Paid Wages After February 1, 2021, Qualified for the Retention Credit?**

No, you are not eligible for the ERC. This Employee Retention Credit is valid for salaries earned between March 12, 2020, and January 1, 2021, for businesses equivalent to 50% of qualifying salaries paid to workers, including health plan expenditures.

For all calendar quarters, the maximum amount of qualifying earnings taken into consideration for any employee is \$10,000.

So an employer can claim the credit for a maximum of \$5,000 for an eligible employer for [qualified wages](#).

### **What is the Employee Retention Credit Used for by Private Businesses?**

The ERC applied to any private businesses in existence in 2020 or 2021 that suffered due to Covid-19 and its related events.

Even tax-exempt organizations are eligible to claim the credit. Because the ERC is not a loan, ERC is not a debt, which means the government never asks the beneficiaries to return the money.

It is a way for the federal government to pass on the benefits to employers and employees instead of taking taxes from businesses. ERC is available until December 31, 2021, where qualified employers may claim up to \$5,000 in credits per employee for qualifying wages earned in 2020 and up to \$7,000 in credits per quarter for those received in 2021.

The total ERC of a single employer is unrestricted. This tax credit is a better fit for many business owners than the other relief bills such as loans and grants.

## FAQs On Employee Retention Credit

### How long does it take to claim a credit under the ERC?

It might take around nine to twelve months to settle the claim, considering various factors to be considered by the competent authority in determining the claim. You may contact the IRS customer service team to check your refund status.

### What is a form 7200?

Use [Form 7200](#) to request an advance payment of employer credits due to COVID-19. (The form is not available to fill anymore after January 31, 2022.)

The IRS provides Form 7200 for advance payment of the tax credits for qualifying sick and family leaves earnings, employee retention credit, and COBRA premium assistance credit. An employer needs to fill out that form to claim their part-time employee or full-time employee. The filling of form 7200 is purely the prerogative of businesses.

## How to check your advanced ERC credit status?

Log in to the [IRS](#) portal and go to the reports section. Under that, look for Payroll Tax Reports > Request Refunds. If you've filled out form 7200 and submitted it, it will appear there. You can see all those forms with details like tax credit amount, application status, tax credit duration, etc.

## What's the last date to file form 7200 for advance credit?

The last date for filling has already expired. The IRS has categorically told every eligible employee to do credit calculations and submit the form by January 31, 2022.

## What is a "small employer" or "small business" definition for ERC purposes?

The IRS has mandated the 2019 employment period for calculation with separate criteria for 2020 and 2021.

### For 2020

Any distressed employer has 100 or fewer full-time equivalents (FTE).

### For 2021

Any business has 500 or fewer full-time equivalents (FTEs).

The specific rules for computing FTEs are provided under Section 4980H (enacted in 2010 as part of the Affordable Care Act ([ACA](#))).

## Can a business claim both a PPP loan and an ERC?

No, they can not claim both benefits. However, we need more guidance from IRC on this, particularly for those who have already applied for PPP loan forgiveness.

For example, a \$350,000 [PPP](#) loan was received, but the firm reported a \$400,000 salary.

It's unclear if the extra \$10,000 might be utilized as retention credit salaries for employees or not. Currently, it is unclear how this utilization of additional salaries will affect the calculation of the PPP headcount decrease. Check out more about [Can You Get Employee Retention Credit And PPP Loan](#).

### **Is the employer liable to pay tax on ERC to government authorities?**

Yes, the ERC credit is subject to taxes. An employer is bound to deposit income tax by reducing credit from the wages on the claimed credit. Moreover, this reduction impacts Section 199A.

If an income tax return is already filled out for the 2020 payroll and credit is received at a later stage, you need to fill out an amended income tax return.

### **What if I'm unable to file for ERC credit?**

In that case, you can seek help or additional guidance from qualified advisors who have experience in this domain. You may claim your [refund credit](#) by paying some nominal fees, as they also help with documentation requirements.

### **I have low payroll taxes. Should I claim ERC?**

Yes, you can still get some cash flow from the government. The ERC is a refundable credit that permits you to get a maximum of \$5,000 per employee for 2020 and \$28,000 per employee for 2021.

The total becomes \$33,000, which is a substantial amount that you may claim by yourself or through a consultant.

## Conclusion and Summary on How to Calculate the Employee Retention Credit (ERC)

Calculating the ERC can be confusing. But all you need is to understand its calculation ways thoroughly. Then, you can calculate the ERC and claim it for your own businesses affected by COVID-19.

However, make sure that when you are calculating through your ERC credits, consult with an expert for a precise and flawless calculation.



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

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DisasterLoanAdvisors.com

# 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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