

# Everything to Know About Employee Retention Credit: Example



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## ERC / ERTC FINANCIAL SERIES

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



# EVERYTHING TO KNOW ABOUT EMPLOYEE RETENTION CREDIT: ERC EXAMPLE

The Employee Retention Credit (ERC) is a relief system for employers under the CARES Act designed to encourage them and keep employees on their payroll.

An eligible employer may claim a refundable tax credit against certain employment taxes equal to 50% of the qualified wages it pays its employees after March 12, 2020, and before January 1, 2021.

## What is the Employee Retention Credit?

The Employee Retention Credit (ERC) or Employee Retention Tax Credit is a relief program for employers under the [CARES](#) Act that offers different types of accommodations for employees. It's a completely refundable tax credit available to qualifying firms that can keep employees on the payroll. The ERC has been shortened with the amendments as a result of the modified and improved Infrastructure Bill.

The scheme was terminated on September 30, 2021; therefore, the highest tax credit available to an employer in 2021 was \$21,000. During that duration, the recoverable ERC was equivalent to half of the qualified wages eligible firms paid to the employees between the start of 2020, and December 31, 2020, when the CARES Act was passed into law. Employers who applied in 2021 could collect a credit against 70% of eligible salaries. Check out [How to Apply for Employee Retention Credit](#).

## How Does Employee Retention Credit Work for Employers?

The small company Employee Retention Credit allows companies to deduct 70% of an employee's qualified pay up to \$10,000 every quarter on the qualified wages.

The highest credit value for the eligible employer is \$7000 per quarter.

The employee's Social Security tax burden is reduced by credit. The eligible employer will get a rebate from the IRS if the qualified wages exceed the Social Security tax due.

Learn more about [How Does Employee Retention Credit Work](#).

## How Does Employee Retention Credit Work for Employers in 2021?

To say that a new ERC, qualifying wages in total, and related health insurance expenditures for each quarter should be measured by calculating them and subtracting them from the deposit made using Form 941. You can take some credit prospectively when you have already submitted your tax for 2020. Fill out [Form 941-X](#) to do so.

People can get an initial deposit of the tax by taking the benefit of available Form 7200, which is for the Advance of Employer Credits. It is available for the staff due to Covid-19, and it can benefit them if they qualify as a small employer as their relief option. Advance payments are not available to companies with more than 500 employees.

For qualified staff members, two important factors determine qualification, and one of them must be used in the calendar quarter where the amount is to be used. Due to a government order, a trade or business was entirely or partially halted or forced to decrease its hours.

According to IRS advice, certain firms do not fulfill this factor test and hence do not qualify. Those deemed vital, unless their supply of crucial materials/goods is disrupted in a way that makes it impossible for them to continue operating. Businesses that were forced to close yet were able to keep their operations mostly intact because of telework.

The second-factor test, however, may still qualify any of these enterprises for loans. An employer whose gross earnings have dropped significantly cannot claim it for social security.

## Employee Retention Credit Example

The ERC is a tax subsidy designed to encourage employers to retain their staff on the job and reduce the number of people claiming unemployment compensation. For 2020 and 2021, the credit is calculated differently.

The tax credit for 2020 is equivalent to 50% of qualified wages paid to eligible workers in a calendar quarter, with a tax credit of \$5,000 per employee each quarter.

The Employee Retention Credit for 2020 is equivalent to half of qualifying employee pay earned in a calendar quarter.

Qualified Wages paid that were recorded after the month of March 2020, but before January 2021, are clear for the credit. Because the maximum credit for eligible earnings paid to any employee in 2020 is \$5,000, the max credit for the qualified amount paid to any person in 2020 is \$5,000.

The ERC will be equal to 70% of qualifying employee pay earned in a calendar quarter in 2021.

For 2021, the tax credit is equivalent to 70% of qualified wages paid to employees by eligible companies, with a maximum credit of \$7,000 per employee each quarter (or \$28,000 per year) for qualified firms.

Check out more about [A Comprehensive Guide on Employee Retention Tax Credit Updates](#).

## 941-X Employee Retention Credit Example

The 941-X tax refund form was designed to assist you in amending your 941 Forms from 2020 and 2021.

You'll need to update your 941s that you submitted with the [IRS](#) in past quarters now that you're authorized to have both PPP loans and ERTC.

## Here is how to deal with the 941-X ERC form.

Fill in the needed information on the page header, such as the firm name, EIN number, quarter, and year.

Calculate which payroll quarters your company is eligible for in 2020 and 2021.

Gather your previous 941, a blank [941-X](#), and payroll diaries for each quarter you qualify for.

Share your business info. Select (941), as well as the quarter and year from the form.

Choose the right calendar year for the quarter.

Choose the date on which you noticed the inaccuracies on your 941 Form. The date you completed this 941-X Form can be used.

In Part 1, choose whether you're filing an amended employment tax return or a claim - you'll most likely choose box 2.

Check box 3 in Part 2. Then, in box 5d, indicate that the Claim is for the tax that You did not withhold from the employee's salary.

Fill in your non-refundable amount or the wage of ERC on the second page, Line 18a.

Add the amounts on lines 7 through 22 of Column 4 on the next page Line 23.

Fill in your refundable share of the employee retention credit on the next page.

Add the values on lines 23–26c of column 4 to the total on the next page, Line 27.

Enter your Qualified earnings for the employee retention credit in Line 30.

Write a clear explanation of how you arrived at your adjustment on Line 43. For example, amending a return in order to apply for ERC Credits. Please mail your refund check to the address shown on your account.

Complete and sign the last page for Part 5 as needed.

## Employee Retention Credit 2021 Worksheet

The IRS released March 9 the final instructions for the 2021 Form 941, Employer's Quarterly Federal Tax Return, which included the updated worksheet for calculating employment tax credits related to COVID-19.

You can check out the worksheet for ERC given by the IRS [here](#).

## Employee Retention Credit 2021 Qualifications

In order to qualify for 2021, a company's gross receipts must have decreased by more than 20% from the same quarter last year.

New firms that did not exist during a certain quarter in 2019 may use the comparable quarter in 2020 as a comparison. Only Recovery Startup Businesses are eligible for the credit before December 31, 2021, thanks to the Infrastructure Investment and Jobs Act.

The ERC does not need an application. Alternatively, employers can claim the ERC on their federal payroll tax returns. To receive the eligible earnings, most corporations must file Form 941, Employer's Quarterly Federal Tax Return.

If an employer subsequently discovers that they qualify for the credit, they can update their Form 941.

Form 7200 can be used to obtain an advance payment for the ERC until August 2, 2021, according to the IRS. Furthermore, new enterprises incorporated after December 31, 2020, will not be able to file Form 7200 to request an advance payment of the ERC.

Depending on your Refundable Payroll Tax Credit, you have the opportunity to claim it on Form 944 which is basically the Employer's Annual Federal Tax Return.

You also have the alternative of Form 943 which can also help you sort out the credit for wages paid, called the Employer's Annual Federal Tax Return.

Fill out Form 7200 as soon as possible after the conclusion of the quarter in which you paid the eligible salaries. Don't forget to account for advance amounts when filing Forms 941, 943, or 944.

On your federal employment tax return, provide the entire qualified health plan expenses.

If the federal employment taxes don't add up well and cover you for the payments in the previous quarter, you can request an advance of the amount with the help of Form 7200 to cover excess wages.

Learn more about [Employee Retention Credits – A Detailed FAQ Guide](#).

## **What are Qualified Wages for the Employee Retention Credit?**

Wages and salaries entitled to FICA taxes, as well as qualified health expenditures, are acceptable for calculating the ERC. To be eligible for the calendar quarter credit, you must really deposit the amount. Remember that you may only use the refundable credit on earnings that haven't been forgiven or aren't expected to be forgiven under [PPP](#).

The IRS has many methods for assessing eligible health costs and partial suspension depending on the circumstances.

They usually contain the pretax part of the employer and employee but not any qualified after-tax wages.

Before establishing the acceptable wages that must be used before the partial suspension, a company must first consider the number of comprehensive workers.

For the purposes of the ERC, a full-time contractor is considered as one who probably worked 30 hours each week or 130 hours during a whole month in 2019, as stipulated under the [ACA](#)'s employer shared liability provision.

Employers who were open for the whole calendar year in 2019 or 2020 divided their total number of full-time employees by 12 months.

The number of full-time employees is derived by multiplying the number of full-time employees by the couple of months in which the business runs.

An employer that starts a business in 2021, such as one of the recovery startup businesses, estimates the number of full-time employees by dividing the sum of full-time employees in each calendar month by the length of time in the year.

## **Other FAQs Related to Employee Retention Credit Example**

### **How Do You Calculate the Employee Retention Credit?**

Because of COVID-19, you may claim both the ERC and the tax credit for offering paid leave. You cannot, however, claim both credits for the same pay.

Furthermore, you cannot include paid leave pay in the ERC computation of qualifying wages.



You must disclose your entire qualifying salaries and related health insurance expenditures on your quarterly work tax returns to be eligible for ERC. Form 941 can be used for this.

Let's look at a few examples of ERC.

## A Single Worker

Assume you have one employee who receives \$10k in qualifying earnings in the first quarter of 2021. You would receive \$7k wages per quarter as an employer ( $\$10k \times 70\%$ ).

## One Employee With Healthcare Costs

Let's imagine you pay your one employee \$5k in qualifying earnings in one quarter, as well as \$1k in qualified employee health insurance.

Multiply the sum of your eligible salary and employee health insurance by 70 percent.  $[(\$5k + \$1k) \times 70\%]$  The total credit in the entire quarter would be \$4,200.

## Several Employees

Assume you have three workers. During the quarter eligible period, you pay 2 of your three workers \$10,000 in qualifying compensation and the third person \$20,000 in qualified earnings. Because eligible wages per employee are limited to \$10,000 per quarter, your compensation would be \$21,000 ( $\$7,000 \times 3$  people).

Check out [How to Calculate the Employee Retention Credit](#).

## What Can I Spend the Employee Retention Credit on?

According to the American Rescue Plan ([ARP](#)) Act, the non-refundable amount of the self-employed individual's retention tax credit will be obtained from Medicare taxes.

This adjustment, however, will only affect salaries earned after June 30, 2021, and will have no effect on the overall credit amount.

If the rebate surpasses the employer's entire Social Security or Medicare liability in any calendar quarter, the difference is reimbursed to the employer, whether before or after June 30, 2021. The balances of these deductions will be matched on the employer's Form 941 at the conclusion of the quarter.

This is true for both for-profit and nonprofit companies. It was established in 2020 as a recoverable payroll tax credit of up to 50% of an employee's salary paid up to a \$5,000 maximum per employee. When activities were completely or partially halted as a result of COVID-19, this credit may be claimed.

If there was a 50% drop in gross receipts, it might also be claimed. That eligibility ceased when the client's recovery reached 80% of its preceding year's gross receipts or December 31, 2021, whichever happened first.

Only salaries for not delivering services and healthcare expenditures might be included in businesses with more employees. This credit can be used for payroll taxes, or the credit can be repaid by completing Form 7200

## ERC Qualifying Criteria

[Employer eligibility](#) is generally determined by one of two essential requirements, at least one of which must be met during the calendar quarter in which the credit is sought.

**Due to a government order, the facility may be closed whole or partially.**

If the business owners or the firm were compelled to completely or partially halt operations or restrict business hours, it might be eligible for the ERC.

As per the IRS, the firms do not fit this definition and would not be eligible.

Those deemed vital until their supply of crucial materials/goods is disrupted to the point that they can no longer operate. Businesses that were forced to close by the business owners were able to continue operating essentially as usual because of telework.

### **A big drop in gross receipts.**

When evaluating a quarter in 2020 to the equivalent quarter in 2019, the firm must have seen a 50% decline in gross receipts. Beginning in 2021, enterprises must have seen a decline in gross revenues of more than 20% in Q1 and Q2 compared with the same period in 2019.

If the company is new, the IRS enables it to use gross revenues from the first quarter as a baseline for any quarter in which they don't have 2019 statistics. Check out more about [Gross Receipts for Employee Retention Credit](#).

### **ERC in Disaster Areas**

The proposed measure extends to companies in disaster zones the disaster ERC tax credit of 40% of earnings (up to \$6,000k per person) for wages paid whether or not the distressed employers are operating.

These enterprises must operate in presidentially designated disaster zones for catastrophic catastrophes that occur after December 31, 2019, and continue for 60 days after the measure is passed, excepting COVID-19.

### **Conclusion and Summary Related to Employee Retention Credit Example**

After COVID-19, businesses can use the Employee Retention Credit to retain employees.

During the period of the COVID-19 pandemic, this program was one of the most important relief programs introduced by the government.

You can determine the Employee Retention Credit using the above calculation examples and how they work. You can either perform the calculations yourself or request the assistance of an expert for your business.



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

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## ERC / ERTC FINANCIAL SERIES

CLAIM UP TO A \$26,000  
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Employee Retention Credit

Month and year

Employer identification number

Final return

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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.**



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