

How Does **Employee Retention Credit Work?**

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ERC / ERTC FINANCIAL SERIES

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



HOW DOES EMPLOYEE RETENTION CREDIT WORK?

Due to the coronavirus negatively affecting businesses nationwide, the Employee Retention Credit was initiated by the government in order to help employers out and cushion the impacts of the pandemic.

The Employee Retention Credit is a refundable tax credit equivalent to 50% of qualifying wages paid to employees by an eligible firm after March 12, 2020, and before January 1, 2021.

Employers can take advantage of multiple coronavirus payroll tax benefits to assist them in managing their business during this period. This credit is a completely refundable tax credit that companies can retain their employees on payroll and can claim as a CARES Act relief measure.

Learn more about the ERC, including how the Employee Retention Credit works and how it can help you rebound from the COVID-19 pandemic.

What is Employee Retention Credit?

The Employee Retention Credit (ERC) is a refundable payroll tax credit to the COVID-19 pandemic and economic shutdown that provides a refundable tax credit to enterprises and small businesses that keep their payroll running in 2020 and 2021.

The Employee Retention Credit was established by Coronavirus Aid, Relief, and Economic Security ([CARES](#)) Act to encourage firms to put in their best on the payroll during months in 2020 impacted by the coronavirus pandemic.

This tax credit was originally worth 50% of eligible employee salaries, but it was capped to \$10,000 per employee, with a maximum credit of \$5,000 for wages earned between March 13, 2020, and December 31, 2021.

It has now been modified, with the proportion of eligible earnings climbing to 70% by 2021. The maximum compensation per employee has been raised from \$10,000 annually to \$10,000 per quarter.

The credit is accessible to all qualifying firms of any size which paid qualified wages to the workers; nevertheless, for some parts of 2020 and 2021, additional criteria apply to employers with fewer than 100 employees and fewer than 500 employees.

Learn more about [Eligibility for Employee Retention Credit](#).

How Does Employee Retention Credit Work?

A total of \$5,000 per eligible employee was claimed from March 13, 2020, through December 31, 2020.

Changes to the Consolidated Appropriations Act for 2021 were made. Employers can now recover 70% of qualified salaries paid per employee up to \$10,000, with a cap of \$7,000 per employee.

[Employers claim the credit](#) when they file their quarterly taxes rather than on a yearly company tax return. This credit reduces employers' employment tax contributions.

How Does Employee Retention Credit Work in 2021?

Congress just enacted a \$1.9 trillion COVID-relief plan to speed this recovery. It was difficult to contact all of the enterprises that were eligible for the ERC benefit because of PPP restrictions, staff counts, and income restraints.

Congress rapidly discovered that the 2020 version of the ERC was not reaching enough firms, so they addressed these concerns with the adoption of the Consolidated Appropriations Act of 2021. [In 2021, the Employee Retention Credit was updated](#) to assist more firms and Americans to stay employed.

This is accomplished by granting a refundable credit to company owners who were affected by the pandemic to offset or maybe eliminate payroll tax. This is now one of the most generous credits accessible to business owners, offering tens of thousands of dollars in credits per eligible employee.

In Q1 of 2021, a manufacturing business with \$20 million yearly sales and 48 employees earned a credit of around \$336,000.

Here are a few of their qualifications:

Quarterly revenue dropped by 32%.

COVID-related problems forced the cancellation or postponement of a number of projects.

Supply chain issues had caused manufacturing delays.

For the combined quarters of 2020, Q1, and Q2 of 2021, a small medical services firm with an annual sales of \$500,000 and 17 workers obtained an \$85,000 credit.

Here are a few of their qualifications:

Revenue during the third quarter of 2020 is down 67% from the previous year.

Revenue continues to decline in Q4 2020, Q1 2021, and Q2 2021.

The ERC for 2020 is 50% of all eligible earnings given to workers from March 12, 2020, to December 31, 2020. For all quarters, each employee's salary is capped at \$10,000. As a result, each employee might be eligible for a \$5,000 credit.

The benefit is 70% of all qualified wages paid to workers from January 1, 2021, to September 30, 2021. It is set at \$10,000 per employee every quarter. As a proposition, each quarterly, each worker is eligible for \$7,000 in pay. A maximum credit of \$21,000 is accessible to workers.

Your total credit is restricted to \$50,000 each calendar quarter if your firm is classified as a recovery starting Business. You are not restricted to earnings received by September 30, 2021. Businesses that started operations after February 15, 2020, and had average annual advance payments and gross receipts of less than \$1 million are considered recovery startups and full-time employees.

More details about the ERC check out this [Comprehensive Guide on Employee Retention Tax Credit Updates](#).

Understanding Employee Retention Credit

The refundable payroll tax credit was in effect for earnings paid beyond September 30, 2021. Even if you got a [PPP](#) loan, any enterprises that were in existence on March 13, 2020, and met one of three conditions are eligible:

As a result of government shutdown orders owing to COVID-19, had either a complete or partial operation in 2020 OR saw a significant drop in gross receipts. You might be eligible for Recovery Startup.

Compensation, some taxable perks, and eligible health care expenditures up to \$10,000 per eligible employee are all included in qualified earnings. The earnings of the majority of owner-employees and family members do not qualify.

If a government shutdown has had any effect on your firm, you may be eligible for a complete or partial government shutdown.

For earnings paid in 2020, the credit was 50% of eligible wages earned, up to \$5,000 per employee / per year. 70% of eligible salaries paid up to a maximum credit of \$7,000 per employee / each quarter for wages paid in 2021.

The wages you can deduct are reduced if you claim the credit. You modify your 2020 income tax return if you submitted your 2020 taxes and claim a 2020 credit.

Check out [Employee Retention Credits – A Detailed FAQ Guide](#).

Understanding How the Employee Retention Credit Works

The ERC offered a credit of up to 50% of qualified wages and employer group health plan expenditures for salaries paid after March 12, 2020, but before January 1, 2021.

The credit does have the highest benefit of \$5,000 per worker for the entire year of 2020. A firm is qualified, as per the IRS, if it:

A “complete or partial suspension of their business or company.
Experienced a drop in [gross receipts](#).”

The ERC defines “substantial fall” as a gross drop-in collection of more than 50% from the same quarter in 2019. The substantial drop ends the very first calendar month after total revenues rebounded to even more than 80% of their levels in the very same quarter of 2019.

For firms with 100 or fewer full-time employees in 2019, the credit extends to any employee wages and collective health plan costs (up to \$10,000 for each worker) paid during the time where activities were ceased or the period of “significant decline” mentioned above.

How Does the Updated Employee Retention Credit Work?

The Employee Retention Tax Credit was later extended till the first two quarters of 2021 by the Consolidated Appropriations Act, as stated previously. The ERTC is available to businesses that were forced to close totally or partially owing to a government order.

However, the meaning of "substantial decrease in gross receipts" has changed.

As opposed to almost the same quarter in 2019, organizations should report a 20% drop in sales in 2021.

Consider the case below. A corporation had total revenues of \$8,000 in the first quarter of 2021. In the first quarter of 2019, the firm made \$10,000 in gross receipts. This business would qualify for the ERTC.

Unless you're a new company with no sales income in 2019, then you can contrast total revenues from the first quarter of your company to the first or second quarter of 2021.

Your company must have paid eligible salaries to employees in order to qualify for the ERTC. What qualifies as qualifying pay varies depending on the size of your company.

Learn more about [How to Apply for Employee Retention Credit](#).

Purpose Of Employee Retention Credit

The Employee Retention Credit, which would be a tax subsidy for businesses, was introduced by the CARES Act. In terms of giving relief from the coronavirus outbreak, this credit is meant to offset an employer's employment taxes. Employers may use this credit to save costs while maintaining jobs.

The refund, which is collected on periodic tax returns and decreases employment tax deposits, benefits employers immediately. Under some conditions, employers may be entitled to an advance from the IRS.

The credit has been extended to qualified companies through June 30, 2021, thanks to the recent approval of the Consolidated Appropriations Act. This measure also includes certain retroactive amendments that made this credit available to more companies. Check out more about [Employee Retention Credit IRS FAQs](#).

Employee Retention Credit Example

Thanks to three major improvements in the Consolidated Appropriations Act of 2021, millions of small-business owners are now eligible for the Employee Retention Credit (ERC).

The ERC is available even if you have already got the PPP loan, although not on the same salary.

For the year 2021, the new law includes an upgraded ERC.

The already strengthened 2021 ERC was prolonged for another six months, through December 31, 2021, according to the most recent new law, the American Rescue Plan Act of 2021 ([ARPA](#)).

The ERC is a significant piece of legislation. It saved tens of thousands on employee compensation during the COVID-19 pandemic. Check out [Everything To Know About Employee Retention Credit – ERC Example](#).

Scenario:

In the year 2021, you run your dental office as an S company. You own the entire company.

Eligibility:

To begin, establish if your first quarter qualifies for the Employee Retention Credit by fulfilling any of the following criteria.

Your business was stopped fully or partially due to orders from government authorities.

Gross receipts were significantly declined.

Wages That Qualify:

An eligible business can credit up to \$10,000 in qualifying salaries per employee for each quarter in 2021.

Amount of Credit:

The credit rate for the quarters of 2021 is 70%.

For the first quarter of 2021, your ERC is \$28,000, or 70% of \$40,000.

Taking Credit for It:

Because your company had 500 or fewer full-time workers in 2019, you must pick one of the following choices to claim the credit for the 2021 quarters:

Deduct the amount of your expected credit from your payroll tax contributions.

Request an advance refund using Form 7200 if your expected credit is more than your payroll tax contributions.

Effects of Tax Returns:

Taxable earnings cannot deduct salaries equivalent to the ERC amount. As a result of claiming the credit, your net business income in 2021 was increased by \$28,000.

Who Qualifies for the Employee Retention Credit?

Owing to COVID-19, activities were fully or partially suspended throughout any calendar quarter due to directives out of an authorized federal authority restricting trade, transportation, or organizational gatherings.

During the calendar, quarter receipts were much lower.
Qualified Employee Retention Credit

More than a minor amount of the employer's daily operations must've been suspended to qualify for the credit.

A part of a company's company is known as more than a nominal component of operations for the purposes of the Employee Retention Credit if the total revenues from that component of business operations aren't really below 10% of gross revenue or the hours of service performed by employees in that section of the business is not just under 10% of a total number of hours of work rendered by all staff in the company's business.

What are the ERC Qualified Wages?

The definition of qualifying earnings is determined by the number of employees employed by an eligible firm.

Qualified wages are usually those earnings provided to employees who are not delivering services because operations have ceased or because gross revenues have decreased if a firm maintained over 100 full-time employees in 2019.

These employers can only count earnings up to the amount an employee would be paid a decent wage for a comparable amount of time in the 30 days prior to the period of economic hardship.

Qualified wages are those payments, including health-care expenditures, paid to any worker during the time activities were ceased or gross receipts declined, regardless of whether or not its workers were delivering services.

Qualified Employee Retention Credit Wages

Earnings and compensation paid to employees throughout the time are considered qualifying wages. This includes eligible health plan expenditures incurred as a result of such wages.

The credit is based on the salaries you paid to all employees for firms with less than 100 full-time equivalent employees. The credit is based on salaries paid to workers who did not work during the period if you averaged more than 100 FTEs.

Can I Still Apply for the Employee Retention Credit?

Even though the Employee Retention Credit (ERC) was retrospectively discontinued in November 2021 by the Infrastructure Investment and Jobs Act, firms still had time to claim it on their 2021 tax returns.

The ERC was established in March 2020 by the Coronavirus Aid, Relief, and Economic Security (CARES) Act to provide financial relief to business owners whose activities were influenced by the global pandemic.

It's since been modified, enlarged, restricted, as well, and, most recently, terminated by laws enacted. The credit has been restricted to the third quarter of 2021 as part of the most recent infrastructure bill; thus, any salaries earned after September 30, 2021, are not eligible for the credit.

If you qualify, the ERC can provide you with immediate financial assistance as well as huge credit amounts.

Here's what you should know when you start collecting data for your 2021 tax returns:

This credit is available to businesses and tax-exempt organizations operating in any quarter of 2020 or 2021. They must, however, possess:

Due to governmental directives prohibiting trade, travel, or group meetings as a result of COVID-19, fully or partially stop corporate operations for any calendar quarter in 2020 or 2021.

This credit is not available to government contractors or self-employed persons.

How Do I Calculate the Employee Retention Credit?

The credit is calculated using eligible earnings paid to your employees each quarter. Here are some illustrations.

2021 Credit:

In the first quarter of 2021, you pay Keith \$10,000. You are eligible for a credit of 70% of qualifying salaries, or \$7,000. In Q2 and Q3, your credit is \$5,600 and \$7,000, respectively. Kelly's earnings in Q3 exceed \$10,000; thus, the credit is restricted at \$10,000. A \$7,000 credit is equal to 70% of \$10,000.

2020 Credit:

In Q2 and Q3, your credit for Amy is \$4,000 and \$1,000, respectively. Any further salary you paid Amy in 2020 did not boost your credit amount after you've reached the \$5,000 threshold.

For example, you can compare gross revenues of the eligible period as well as the covered period from Q1 2021 to Q1 2019 or Q4 2020 to Q4 2019.

The ERTC standards were changed somewhat for 2021; however, the computation process has remained mostly the same.

Calculate the number of full-time employees who received qualifying salaries during this time period. As previously stated, firms with 500 or fewer employees can now claim a pay credit for full-time employees who continued to work or execute services for the company.

Calculate the salaries provided to each full-time qualifying employee during this time period (including eligible health care expenditures).

You are now able to claim 70% of qualifying employee salaries under the new law.

Per employee, the maximum amount of eligible compensation is still \$10,000. These restrictions apply to each quarter, not the full year. If all conditions are completed, you can claim the full credit on eligible salaries for Q1 and Q2.

To get the overall value of your ERTC, add all of your workers' total credits.

Learn more about [How to calculate the Employee Retention Credit](#).

Is the ERC Going to Expire?

The [IRS](#) issued Notice 2021-49 on August 4, 2021, which gives more information on claiming the Employee Retention Credit for firms who pay eligible wages after June 30, 2021, but before January 1, 2022 [IR 2021-165, Notice 2021-49]. On December 31, 2020, the ERC was set to expire.

As per the Consolidated Appropriations Act 2021, the ERC had been prolonged until June 30, 2021. Furthermore, the CAA raised the ERC rate of reimbursement from 50% to 70% of qualified wages. The ERC was prolonged until December 31, 2021, and then discontinued retrospectively on September 20, 2021.

Conclusion and Summary on How Does Employee Retention Credit Work?

Knowing how the Employee Retention Credit works, will help you take the benefits of the refundable payroll tax credit introduced by the government.

Find out more about ERC and how to see whether your company qualifies for this IRS incentive. Getting the ERC can help your company and give financial relief from COVID-19 related expenses.



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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