

MAKING CENT\$\$ OF STIMULUS MONEY

Employee Retention Credit 2021

March 30, 2021

American Rescue Plan Act of 2021

- \$1.9 trillion stimulus package signed into law March 11, 2021
- Extends ERC through December 31, 2021
- Expanded eligibility
- Clarified exclusions when applying for other credits and/or stimulus money
- Added five-year statute of limitations for the IRS to assess a deficiency for claiming the credit

Employee Retention Credit for 2021

- Credit against employer share of Social Security tax equal to 70% of qualified wages paid to employees between January 1, 2021 and December 31, 2021
- Qualified wages are capped at \$10,000 per employee per quarter
- Maximum credit per employee per quarter is \$7,000 and \$28,000 per year
- Eligible costs include employer paid health insurance costs
- File for credit on Form 941 – Employer’s Quarterly Federal Tax Return
- Can claim the credit even if you received a PPP loan
 - Cannot use the same wages to apply for PPP loan forgiveness AND the credit – NO DOUBLE DIPPING!

Am I Eligible for the Credit in 2021?

Two ways to qualify

- Business operations are either fully or partially suspended due to a COVID-19 government mandated order
 - Qualified wages begin when the government order is put in place
 - Qualified wages end when government order is lifted
- Gross receipts in a calendar quarter are less than 80% of gross receipts in the same calendar quarter of 2019
 - Qualified wages begin the first day of the first quarter that you become eligible
 - Qualified wages end on the last day of the eligible quarter
 - Can be eligible for multiple quarters

Updates from American Rescue Plan Act

- Recovery Startup Businesses (RSB) are eligible to take the credit
 - Started business on or after February 15, 2020
 - Had no more than \$1,000,000 in average annual gross receipts over the prior three years
 - Not otherwise eligible for the credit due to a government mandated order or meeting the gross receipts test
 - Deemed eligible to receive credit in 3rd and 4th quarter 2021 only (since ARPA is effective for dates July 1-December 31, 2021)
 - Maximum credit of \$50,000 per quarter

Large Employer vs. Small Employer

- Employer that averaged more than 500 full-time employees in 2019
 - Qualified wages are those paid to employees that are **not** providing services because operations were fully or partially suspended or due to meeting the gross receipts decline test
- Employer that averaged fewer than 500 full-time employees in 2019
 - Qualified wages are wages paid to **all** employees when operations are partially or fully suspended or gross receipts decline test is met

Full-time employee for purposes of ERC means an employee who worked an average of at least 30 hours per week or 130 hours per month

How Do I Claim the Credit?

- Can reduce employment tax deposits by the amount of the anticipated credit prior to filing Form 941
- Small employers may request advance payment of the credit on Form 7200 – Advance of Employer Credits Due to COVID-19, after reducing deposits
- If deposits were not reduced during the quarter, may apply the credit to the next quarter when filing Form 941
- May request a refund of the credit when filing Form 941

Form 941

Part 1: Answer these questions for this quarter. *(continued)*

d Total nonrefundable credits. Add lines 11a, 11b, and 11c **11d**

Total taxes after adjustments and nonrefundable credits. Subtract line 11d from line 10 **12**

a Total deposits for this quarter, including overpayment applied from a prior quarter and overpayments applied from Form 941-X, 941-X (PR), 944-X, or 944-X (SP) filed in the current quarter **13a**

b Reserved for future use **13b**

c Refundable portion of credit for qualified sick and family leave wages from Worksheet 1 **13c**

d Refundable portion of employee retention credit from Worksheet 1 **13d**

e Total deposits and refundable credits. Add lines 13a, 13c, and 13d **13e**

f Total advances received from filing Form(s) 7200 for the quarter **13f**

g Total deposits and refundable credits less advances. Subtract line 13f from line 13e **13g**

Balance due. If line 12 is more than line 13g, enter the difference and see instructions **14**

Overpayment. If line 13g is more than line 12, enter the difference Check one: Apply to next return. Send a refund

Worksheet 1, Step 1 – 941 Instructions

Worksheet 1. Credit for Qualified Sick and Family Leave Wages and the Employee Retention Credit

Keep for Your Records



Determine how you will complete this worksheet

If you paid both qualified sick and family leave wages and qualified wages for purposes of the employee retention credit this quarter, complete Step 1, Step 2, and Step 3. If you paid qualified sick and family leave wages this quarter but you didn't pay any qualified wages for purposes of the employee retention credit this quarter, complete Step 1 and Step 2. If you paid qualified wages for purposes of the employee retention credit this quarter but you didn't pay any qualified sick and family leave wages this quarter, complete Step 1 and Step 3.

Step 1. Determine the employer share of social security tax this quarter after it is reduced by any credit claimed on Form 8974 and any credit to be claimed on Form 5884-C and/or Form 5884-D

1a	Enter the amount of social security tax from Form 941, Part 1, line 5a , column 2	1a	_____
1b	Enter the amount of social security tax from Form 941, Part 1, line 5b , column 2	1b	_____
1c	Add lines 1a and 1b	1c	_____
1d	Multiply line 1c by 50% (0.50)	1d	_____
1e	If you're a third-party payer of sick pay that isn't an agent and you're claiming credits for amounts paid to your employees, enter the employer share of social security tax included on Form 941, Part 1, line 8 (enter as a positive number)	1e	_____
1f	Subtract line 1e from line 1d	1f	_____
1g	If you received a Section 3121(q) Notice and Demand during the quarter, enter the amount of the employer share of social security tax from the notice	1g	_____
1h	Employer share of social security tax. Add lines 1f and 1g	1h	_____
1i	Enter the amount from Form 941, Part 1, line 11a (credit from Form 8974)	1i	_____
1j	Enter the amount to be claimed on Form 5884-C, line 11, for this quarter	1j	_____
1j(i)	Enter the amount to be claimed on Form 5884-D, line 12, for this quarter	1j(i)	_____
1k	Total nonrefundable credits already used against the employer share of social security tax. Add lines 1i, 1j, and 1j(i)	1k	_____
1l	Employer share of social security tax remaining. Subtract line 1k from line 1h	1l	_____

Worksheet 1, Step 3 – 941 Instructions

Step 3.

Figure the employee retention credit

3a	Qualified wages (excluding qualified health plan expenses) for the employee retention credit (Form 941, Part 3, line 21)	3a	_____
3b	Qualified health plan expenses allocable to qualified wages for the employee retention credit (Form 941, Part 3, line 22)	3b	_____
3c	Add lines 3a and 3b	3c	_____
3d	Retention credit. Multiply line 3c by 70% (0.70)		3d _____
3e	Enter the amount of the employer share of social security tax from Step 1, line 11	3e	_____
3f	Enter the amount of the nonrefundable portion of the credit for qualified sick and family leave wages from Step 2, line 2j	3f	_____
3g	Subtract line 3f from line 3e	3g	_____
3h	Nonrefundable portion of employee retention credit. Enter the smaller of line 3d or line 3g. Enter this amount on Form 941, Part 1, line 11c		3h _____
3i	Refundable portion of employee retention credit. Subtract line 3h from line 3d and enter this amount on Form 941, Part 1, line 13d		3i _____

Tip: File Form 7200 if you can't reduce your employment tax deposits to fully account for these credits that you expect to claim on your employment tax return for the applicable quarter, or year if you file an annual return. Don't reduce your employment tax deposits and request advanced credits for the same expected credits. You will need to reconcile your advanced credits and reduced deposits on your employment tax return. You can't request an advance payment of the credit for sick and family leave for self-employed individuals.

Part I Tell Us About Your Employment Tax Return

- A** Check the box to indicate which employment tax return form you file (or will file for 2021). Check only one box.
(1) 941, 941-PR, or 941-SS **(2)** 943 or 943-PR **(3)** 944 or 944(SP) **(4)** CT-1
- B** Is this a business that started on or after January 1, 2020? You must check one box. **Yes** **No**
- C** Amount reported on line 2 of your most recently filed Form 941 (or wages reported on Schedule R (Form 941), column (d), by your third-party payer (see instructions)). If you file a different employment tax return or have never filed one, see instructions ▶
- D** Tax period of most recently filed Form 941 (for example, "Q4 2020") or annual employment tax return (for example, "2020") ▶
- E** If you're requesting an advance payment of the employee retention credit (Part II, line 1), enter the average number of full-time employees you had in 2019 (or 2020 if your business wasn't in existence in 2019). Aggregation rules apply. See instructions ▶
- F** If you're requesting an advance payment for qualified sick and/or family leave wages (Part II, lines 2 and/or 3), enter the number of employees you had when qualified leave was taken during the quarter for the advance requested. See instructions . . ▶

Part II Enter Your Credits and Advance Requested

1	Total employee retention credit for the quarter. Don't enter more than the amount eligible to be advanced for the quarter. See instructions	1	<input type="text"/>
2	Total qualified sick leave wages eligible for the credit and paid this quarter. See instructions	2	<input type="text"/>
3	Total qualified family leave wages eligible for the credit and paid this quarter. See instructions	3	<input type="text"/>
4	Add lines 1, 2, and 3	4	<input type="text"/>
5	Total amount by which you have already reduced your federal employment tax deposits for these credits for this quarter. Enter as a positive number	5	<input type="text"/>
6	Total advanced credits requested on previous filings of this form for this quarter	6	<input type="text"/>
7	Add lines 5 and 6	7	<input type="text"/>
8	Advance requested. Subtract line 7 from line 4. If zero or less, don't file this form	8	<input type="text"/>

How to Prepare

- Determine if you meet one of the two qualifying tests for 2021
- Determine which wages can be used for the credit
 - Wages paid under FFCRA are not eligible
 - Wages used for PPP loan received in 2021 (first or second draw) are not eligible
 - Wages covered by a Shuttered Venue Operator Grant or Restaurant Revitalization Fund Grant
 - Wages used to obtain any of the following credits are not eligible:
 - Credit for increasing research activities
 - Indian employment credit
 - Employer wage credit for employees who are active-duty
 - Work opportunity tax credit
 - Empowerment zone employment credit

How to Prepare

- Complete Worksheet 1 from Form 941 Instructions (keep for your records)
- Provide qualified wages and health plan expenses allocable to the credit to your payroll provider PRIOR to filing Form 941
- Let payroll provider know if you would like to apply payments to the next return or if you would like to request a refund

Resources

- COVID-19 Resource Center

<https://www.wegnercpas.com/wegner-resources/covid-19/>

- IRS

<https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act>

<https://www.irs.gov/newsroom/new-law-extends-covid-tax-credit-for-employers-who-keep-workers-on-payroll>

Thank You!

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