

# Employee Retention Credits

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## PROFESSIONALS

Noel Brock

Brett Johnson

Eckhard Walter

Eckhard Walter, Tax Partner, Noel Brock, Tax Principal, Brett Johnson, Tax Principal  
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The enactment of the 2021 Consolidated Appropriations Act in late December changed and expanded the Employee Retention Credit to provide more meaningful benefits to employers that have been affected by COVID-19. Retroactive changes now allow businesses that have obtained a Paycheck Protection Program (PPP) loan to claim the Employee Retention Credit for wages paid with non-PPP loan funds or with PPP loan proceeds that have not been and will not be forgiven.

While the Employee Retention Credit is available for any-size eligible employer, it seems that “small” employers (for 2020, employers with 100 or fewer full-time employees; for 2021, employers with 500 or fewer full-time employees) may take a more direct approach to maximizing benefits, allowing them to claim credit on all wages paid. Employee Retention Credit benefits for “large” employers are limited to wages paid for time that employees did not provide services.

Since this is a payroll tax – rather than income tax – credit, the benefits can be claimed more immediately and they can be significant. For 2020, the credit is 50% of qualified wages. For 2021, the credit amount is 70% of qualified wages. Qualified wages may include more than just cash compensation.

**Potential Employee Retention Credit Available\*    Employer Size    2020 Credit    2021 Credit**  
**30 employees up to \$150,000    up to \$420,000    70 employees up to \$350,000    up to \$980,000**  
**250 employees    Credit can only be taken on wages paid to employees for time they did not provide services up to \$3,500,000**  
**600 employees    Credit can only be taken on wages paid to employees for time they did not provide services    Credit can only be taken on wages paid to employees for time they did not provide services**

\*Up to \$5,000 per employee in 2020 and up to \$14,000 (\$7,000 per quarter for two quarters) per employee in 2021.

Employee Retention Credit benefits related to wages paid during 2020 can still be captured on an employer's 2020 fourth quarter payroll tax return, which is due January 31, 2021. For 2021 credits, eligible "small" employers can request advances on their credits and "large" employers report the credit on their first and second quarterly payroll tax returns.

#### **NEXT STEPS FOR CLIENTS:**

Whether or not your business received a PPP loan, HCVT is here to help you navigate and maximize the Employee Retention Credit for 2020 and 2021 in the following ways:

- Analyze business segments to determine eligibility based on partial or full suspension of the business because of COVID-19 related government mandates.
- Perform the gross receipts test to determine eligibility for the credit.
- Analyze employee headcount in conjunction with aggregation rules to determine if a business is a "large" or "small" employer.
- If applicable, evaluate the use of PPP proceeds for payment of employee wages to optimize amounts that would qualify for the Employee Retention Credit.
- Analyze employee payroll and qualified healthcare costs to help maximize the amount of credits.
- If applicable, assist with amending Form 941 for any previously filed payroll tax returns for 2020 where credits could have been claimed.
- Assist with 2021 payroll tax filings to claim available credits, reduce payroll deposits and/or request advance credits.

**Employee Retention Credit Comparison in 2020 & 2021**

Period	March 13 to December 31, 2020	January 1 to June 30, 2021
<b>Reduction in Business Requirements</b>	Business was fully or partially suspended due to emergency orders from a government authority that limited commerce, travel, or group meetings, or Business was fully or partially suspended due to emergency orders from a government authority that limited commerce, travel, or group meetings, or Greater than 50% reduction in gross receipts for the current calendar quarter as compared to the same calendar quarter in 2019.	Greater than 20% reduction in gross receipts for the current calendar quarter as compared to the same calendar quarter in 2019.
<b>Employee Threshold for Qualified Wages</b>	100 or fewer full-time employees (average employment in 2019), credit applies to wages paid to all employees.	500 or fewer full-time employees (average employment in 2019, with special rules for businesses not in existence until 2020), credit applies to wages paid to all employees. More than 100 full-time employees, credit only applies to wages paid for time they were not providing services. More than 500 full-time employees, credit only applies to wages paid for time they were not providing services.
<b>Qualified Wages and Credit Calculation</b>	50% of qualified wages (up to \$10,000 for the year) paid to an employee after March 12, 2020 and before January 1, 2021. Maximum credit of \$5,000 per eligible employee.	70% of qualified wages (up to \$10,000 per quarter in the first two calendar quarters of the year). Maximum credit of \$14,000 per eligible employee. Qualified wages include qualified health plan expenses paid by the employer even if wages are not paid to the employee. Qualified wages include qualified health plan expenses paid by the employer even if wages are not paid to the employee.
<b>Coordination with PPP**</b>	Under original CARES Act, an employer was not eligible for the credit if it also received a PPP loan. The Consolidated Appropriations Act changed the law retroactively to permit an employer to claim the credit and receive a PPP loan in 2020, but it seems the same wages and healthcare costs can't be used for the credit and PPP forgiveness. An employer can be eligible for the credit and receive a PPP loan, but it seems the same wages and healthcare costs cannot be used for the credit and PPP forgiveness. The credit may not be claimed on wages paid from PPP loan proceeds that are later forgiven.	

\*\* There are some aspects related to PPP loans and the Employee Retention Credit for which Internal Revenue Service and Small Business Administration guidance is needed and expected.

Please contact your HCVT professional to discuss how Employee Retention Credit may benefit your business. For more information about economic relief, please see our [Tax Alerts](#).