

# EMPLOYEE RETENTION CREDIT



## GOVERNMENT TAX CREDITS

In order to provide economic relief to businesses and individuals during the Coronavirus pandemic, the CARES (Coronavirus Aid, Relief and Economic Security) Act was signed into law in March 2020. This \$370 billion stimulus package makes funding available to small companies, which can be used to allow certain employers who retain employees during the crisis, to claim a tax credit. This tax credit is known as the Employee Retention Credit (ERC).

## EMPLOYEE RETENTION CREDIT

The ERC allows eligible employers to claim a credit against 50% of wages paid per quarter, up to \$10,000 per employee annually, for wages paid between March 13, 2020 – December 31, 2020. The maximum credit is \$5,000 per employee. In December of 2020, under the Covid-19 Relief Package, the ERC was extended from January 1, 2021 – September 30, 2021. This extension allows eligible employers to claim a credit against 70% of wages paid per quarter, up to \$10,000 per employee, with a maximum allowable credit of \$26,000 per employee.

## WHICH BUSINESSES QUALIFY & HOW?

There are several ways that a business can qualify for ERC: 1) full or partial suspension of business operations as a result of government order or, 2) a significant decline in revenue compared to the same quarter in 2019 or, 3) interrupted operations or, 4) supply chain interruptions or, 5) reduction in services or goods offered to your customers or, 6) cut down in your hours of operations or, 7) difficulty hiring employees and others.



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## HOW DO ELIGIBLE EMPLOYERS OBTAIN THEIR ERC?

American Tax Savings (ATS) will review the relevant financial records to calculate the dollar amount of the eligible employer's expected credit. ATS will then complete and file the relevant IRS forms for the employer and retain all necessary documentation.

### CARES ACT

- All wages paid between March 13, 2020 and December 31, 2020
- Payroll tax credit rate - 50 percent of Qualified
- Limit on per-employee creditable wages - \$10,000 for the year
- Eligibility for the credit - reduction of gross receipts by at least 50 percent of the comparable quarter in 2019
- 100-employee delineation for determining the relevant qualified wage base (i.e. all wages paid to employees are available for the credit up to the cap)
- Wage qualification is based on the average number of employees the business employed in 2019

### COVID 19-RELIEF PACKAGE

- Beginning on January 1, 2021, and through December 31, 2021
- Payroll tax credit rate - 70 percent of Qualified wages
- Limit on per-employee creditable wages - \$10,000 for each quarter
- Eligibility for the credit - threshold drops to 20 percent. Safe harbor allows employers to use prior quarter gross receipts to determine eligibility
- 500-employee delineation for determining the relevant qualified wage base
- Employers who receive PPP loans may still qualify for the ERC with respect to wages that are not paid for with forgiven PPP proceeds retroactive to the CARES Act
- Allows new employers who were not in existence for all or part of 2019 to be able to claim the credit. This new provision is retroactive to the effective date included in Section 2301 of the CARES Act



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