

Q&A: The Employee Retention Credit

The CARES Act includes a business relief provision called the Employee Retention Credit. It's a refundable payroll tax credit equal to 50% of qualified wages paid to employees from March 13, 2020 to December 31, 2020. The purpose of this tax credit is to encourage employers to keep employees on payroll even if their work is suspended due to the COVID-19 pandemic. The Employee Retention Credit can provide a refundable credit of up to \$5,000 for each full-time employee retained between Mar. 13 and Dec. 31, 2020.

Who qualifies for the employee retention credit?

Any size company can qualify for this credit if your company experienced partial or full shutdown due to a government order related to COVID-19 OR if your gross receipts during a calendar quarter are less than 50% of the gross receipts for the same calendar quarter during 2019. Self-employed individuals are not eligible for this tax credit.

What are qualified wages?

If your company averaged more than 100 full-time employees during 2019 then qualified wages for you are:

- Wages that continue to be paid to employees whose work is suspended due to COVID-19
- OR a greater than 50% reduction in gross receipts

If your company averaged 100 or fewer full-time employees during 2019 then qualified wages for you are:

- All wages that continue to be paid to employees whether or not their work is suspended.

Wages for which you received a tax credit through the FFCRA can't be counted towards this tax credit.

Do qualified wages include healthcare costs?

Regardless of business size, qualified wages include certain healthcare costs paid by an employer to maintain a group health plan.

How much credit will be given?

50% of qualified wages paid to each employee. However, there is a \$5,000 cap per employee.

Do I have to wait until my business files its 2020 tax return to claim the credit?

No. The tax credit may be claimed against the employer portion of employment taxes, including Social Security and Railroad Retirement payroll taxes. To the extent the credit exceeds the employer portion of employment taxes due, the credit is treated as an overpayment and is refundable to the employer. The IRS is expected to provide guidance regarding the process for claiming the credit and receiving the refund.

Can this credit be claimed in addition to using the PPP?

No. The Paycheck Protection Program (PPP) is a loan that provides small businesses with funds to pay up to 8 weeks of payroll costs, including benefits. SBA will fully forgive the loan if all employees are retained and if 75% or more of the money is used on payroll. If you received a loan through the PPP, this tax credit is not available to you.

More questions?

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