



Employee Retention Tax Credit

What, when, and how to evaluate and claim eligible credits.

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WEALTH ADVISORY | OUTSOURCING | AUDIT, TAX, AND CONSULTING

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Agenda

- Introductions
- Employee Retention Tax Credit overview
- Large versus small employer
- Eligibility
 - Gross Receipts reduction and how to calculate
 - Government shutdown guidance
- Credit calculation
 - Qualified wages / health
 - Consideration of other grant funding / credits
- Claiming ERC - timing and financial reporting



Introductions and about CLA



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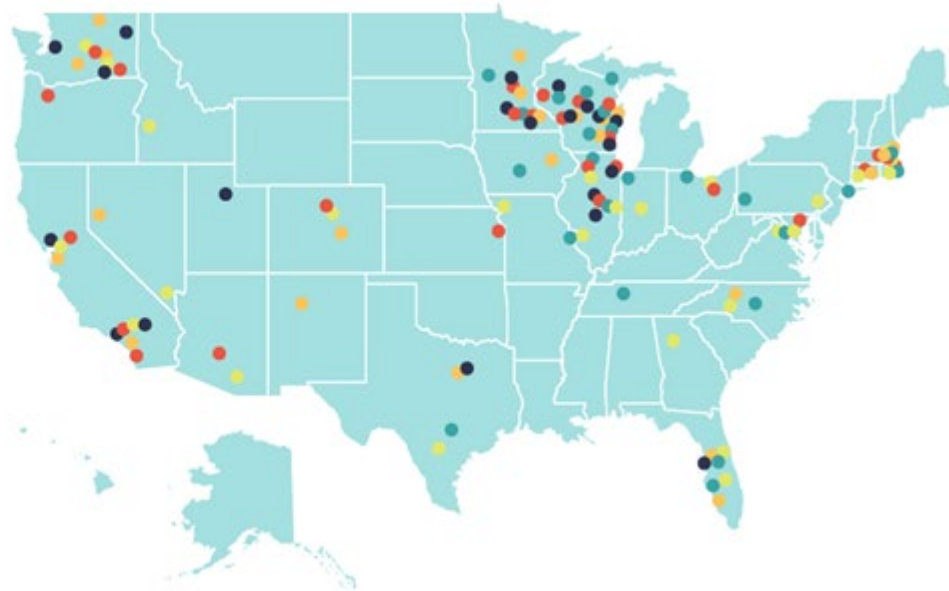
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Employee Retention Tax Credit Overview

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Employee Retention Credit Overview

	2020	2021
Covered Dates (payroll paid during period)	3/13/20 – 12/31/20	1/1/21 – 9/30/21
Employer size-based restrictions*	Over 100 fulltime employees can only include paid but not working	Over 500 fulltime employees can only include paid but not working
Quarterly Revenue Decline vs. same quarter 2019 OR	>50%	>20%
Partial or full government shut-down	Actual dates organization was shut-down by government order	
Maximum eligible wages + healthcare cost per employee	\$10,000/year	\$10,000/quarter
% wages + healthcare eligible for credit	50%	70%
Maximum annual credit/employee	\$5,000	\$21,000

*FTE measured by number of FTE in 2019 according to ACA definition of fulltime employee





Large versus Small Employer

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Large v. Small Employer: Fulltime Employee Count



2020 credits limited to those with 100 or fewer fulltime employees in calendar 2019; 2021 credits 500 or fewer.



Fulltime employee count calculated by:

2019 employees by month
Count employee working 130+ hours a month as a 1; <130 as 0
Total each month and average over 12 months



Note- this is different than headcount or FTE used for PPP!



Large versus Small Employer

- Small employers can use all qualified wages and qualified health toward the credit
- Large employers can only use qualified wages or health for employees not working
 - Furloughed with pay
 - Furloughed without pay but paid healthcare
 - IRS Notice 2021-20 states leave time subject to a preexisting policy is not eligible





Eligibility

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Eligibility – Gross Receipts Reduction

- 2020 Credit
 - Greater than 50% reduction in any quarter compared to the same quarter in 2019
 - Continue to qualify until the quarter after gross receipts are back up to at least 80% of 2019
 - ERC available for wages paid after March 12, 2020
- 2021 Credit
 - Greater than 20% reduction in any quarter compared to the same quarter in 2019
 - Can use prior quarter to qualify if the prior quarter met the above reduction
 - ERC available for Q1, 2, and 3
 - Recovery startup available Q3 and 4



Gross Receipts Reductions - Examples

	<u>Revenue per Quarter</u>				
	Q1	Q2	Q3	Q4	Total
2019	4,203,466.00	4,154,587.00	3,251,166.00	2,188,798.00	13,798,017.00
2020	2,994,368.00	1,523,448.00	2,343,642.00	2,339,155.00	9,200,613.00
	-29%	-63%	-28%	7%	-33%
		<i>Over 50% Reduction</i>	<i>Qualify until first quarter AFTER back up to 80%</i>		
2021	3,166,203.00	4,727,392.00	5,898,479.00		13,792,074.00
	-25%	14%	81%	-100%	0%
	<i>Over 20% Reduction</i>	<i>Qualify based on prior quarter</i>			
	<u>Fiscal Year End</u>	<u>Per Above</u>	<u>Per 990 (Box G Page 1)</u>	<u>Variance</u>	
	6/30/2020	9,957,780.00	9,957,780.00	-	

Follows 6033 of the Code – reconcile annually to Box G on 990 page 1
 Can elect to exclude PPP forgiveness, shuttered venue grants and EIDL



Gross Receipts from 990

- IRS Notice 2021-20 clarified nonprofits follow 6033 of the Code, which is defined as Box G on page 1 of the 990

Form 990 Department of the Treasury Internal Revenue Service	Return of Organization Exempt From Income Tax Under section 501(c), 527, or 4947(a)(1) of the Internal Revenue Code (except private foundations) ▶ Do not enter social security numbers on this form as it may be made public. ▶ Go to www.irs.gov/Form990 for instructions and the latest information.	OMB No. 1545-0047 2021 Open to Public Inspection
A For the 2021 calendar year, or tax year beginning , 2021, and ending , 20		
B Check if applicable: <input type="checkbox"/> Address change <input type="checkbox"/> Name change <input type="checkbox"/> Initial return <input type="checkbox"/> Final return/terminated <input type="checkbox"/> Amended return	C Name of organization Doing business as Number and street (or P.O. box if mail is not delivered to street address) Room/suite City or town, state or province, country, and ZIP or foreign postal code	D Employer identification number E Telephone number G Gross receipts \$



Government Shutdown

- Fully or partially suspended operations due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings due to COVID-19
 - Comparable Operations/Ability to Telework:
 - Employer's telework capabilities
 - Portability of employees' work –portable or otherwise adaptable to be performed from a remote location.
 - Need for presence in employee's physical workspace.
 - Transitioning to telework – is the adjustment period significant?



Government Shutdown

- Partial Suspension Objective Test:
 - Gross receipts from that portion of the business operation is not less than 10% of the total gross receipts (both determined using the gross receipts of the same calendar quarter in 2019), or
 - The hours of service performed by employees in that portion of the business is not less than 10% of the total number of hours of service performed by all employees in the employer's business (both determined using the number of hours of service performed by employees in the same calendar quarter in 2019).
- United Way considerations: typically only available if your UW directly runs programs that were closed under order. Impact on fundraising activities are challenging to include in shut down due to guidance that activities replaced with virtual/online do not count as shut down.





Credit Calculation

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Credit Calculation

- Qualified Wages

- Medicare wages (gross wages less certain pretax deductions, mainly health)
- Severance is excluded
- Should agree to Line 5c on the quarterly 941

- Qualified Health

- Employee pre-tax health deductions (medical, dental, vision)
- Employer portion of the above
- Employer HRA or FSA contributions
- Excluded:
 - After tax deductions
 - Employer HSA contributions



Consider Other Funding or Credits

- Exclude:
 - Wages used to obtain PPP forgiveness (note: wages in PPP period included in application in excess of amount needed can be used)
 - Wages/health that were used to claim FFCRA credits
 - Reported as qualified sick leave and qualified family leave wages or health on the 941
 - Wages/health funded by restricted grants
 - Some ambiguity in definition of “double dipping”
 - Federal grants and cost-reimbursement state grants need to be excluded.
 - Restricted philanthropic grants may be: see if funder will release restriction or allow shifting to cover non-payroll costs.



Differences in Calculation

- Eligible under gross receipts
 - All qualified wages/health in quarter can be used toward credit
- Eligible under government shutdown
 - All quarters that span shutdown are eligible, however, only wages/health paid in the period of the order are eligible
 - Example: eligible period determined to be 4/1/20-6/1/20
 - Q2 2020 is eligible but only wages paid from 4/1 – 6/1 can be used
- Remember - only wages/health paid for not providing services can be used for large employer



Credit Calculation

- By employee:

Qualified wages + qualified health – wages used for PPP forgiveness or other grant funding – wages used for FFCRA

X 50% for 2020 credit, capped at \$5,000 for year

X 70% for 2021 credit, capped at \$7,000 per quarter



Maximizing Credits during PPP Overlap

Suggested Strategy:

1. Determine minimum amount of wages/healthcare needed to reach 100% PPP forgiveness.
2. Determine amount of wages/healthcare from non-overlapping period to use towards PPP.
3. Calculate ERC using all wages/healthcare (excluding those paid for by restricted grants).
4. Pull wages for those exceeding the ERC max (\$10k) into PPP during overlap.
5. Determine gap for PPP and pull minimum needed from ERC to PPP.





Claiming ERC

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Claiming ERC

- Credit for qualified wages/health for March 13, 2020 – March 31, 2020 are claimed on an amended Q2 2020 941
- 2020 Credit maximum \$5,000 per employee for the year
- 2021 Credit maximum \$7,000 per employee per quarter



Claiming ERC – Timing and Financial Reporting

- Have 3 years from the date of the original filed 941 to claim the credit on an amended 941x
- Current IRS turnaround 9-12 months
- Reported as government grant - recognize when all conditions of such grant are fulfilled or there is reasonable assurance that they will be fulfilled (typically, when the 941x is filed)



Documentation and Support

How to record in your financial statements?

- Should apply ASC 958-605 when receiving a government grant and reflect as a contribution after meeting conditions.
- Generally consider filing the 941xs as meeting the conditions and therefore can be recorded as revenue (not a reduction in expenses) at that point in time



Documentation and Support

What records should you provide to your auditor?

- Documentation for why you qualify
- Supporting calculations for the credit
- Copies of filed 941x
- Any correspondence with the IRS, if applicable





QUESTIONS?

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How CLA can help

Assistance to conduct detailed calculations, grant analysis, PPP navigation, provide supporting documentation, and prepare forms 941-X:

1. 2020 credits: \$250/eligible employee/year
2. 2021 credits: \$250/eligible employee/quarter



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