

CORONAVIRUS RESPONSE AND RELIEF:

PPP Loan Recipients
Now Eligible for the
Employee Retention
Credit



WEBINAR

April 21, 2021

CORONAVIRUS RESPONSE AND RELIEF:

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Today's Moderator



Employee Retention Tax Credit



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Are you eligible?

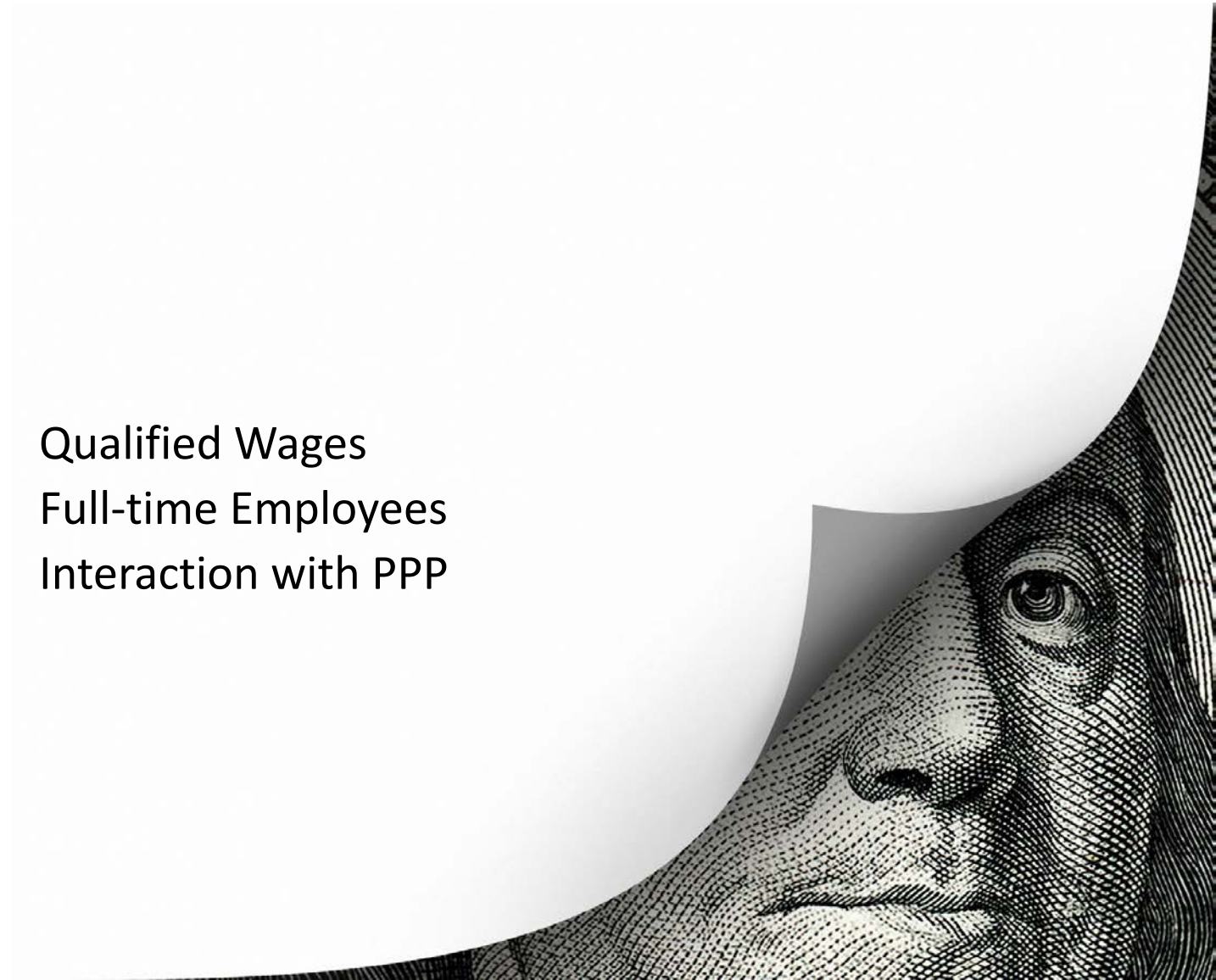
**How do you claim
this credit?**



Employee Retention Tax Credit

Agenda

- Eligibility
- Limitations
- Claiming the Credit
- IRS Notice 2021-20
 - Eligible Employers
 - Aggregation
 - Government Orders
 - Decline in Gross Receipts
- **Questions**
- Qualified Wages
- Full-time Employees
- Interaction with PPP



Polling Question

Based on what you know now, are you expecting to qualify for the Employee Retention Credit?

- a) Yes, I am confident that I will qualify.
- b) I think I qualify but would like more information.
- c) I am hoping I qualify.
- d) I have no idea.

Eligible Employers and Organizations

Who can qualify for the ERC?

Carry on a trade or business with employees during 2020 or 2021, AND

- ✓ *experience a full or partial government shutdown, OR*
- ✓ *suffer a significant decline in gross receipts, OR*
- ✓ *qualify as a Recovery Startup Business*

OR

Be a tax-exempt organization with employees, and experience the government shutdown or decline in gross receipts

- ✓ *Gross receipts includes all receipts, not only revenue received in a business-like setting*
- ✓ *Government entities do not qualify – except public colleges, universities, and hospitals*

Recovery Startup Business

New category in American Rescue Plan Act (ARPA)

- Recovery Startup Business
 - *An employer who began carrying on a trade or business after 2/15/2020,*
 - *Whose average annual gross receipts for prior three-year period does not exceed \$1,000,000, and*
 - *Who does not qualify for the Employee Retention Credit through a decrease in gross receipts or government shutdown order*
- An RSB is automatically eligible for the Employee Retention Credit
 - *Maximum credit: \$50,000 per quarter*
 - *Only for Q3 and Q4 of 2021*



Polling Question #2



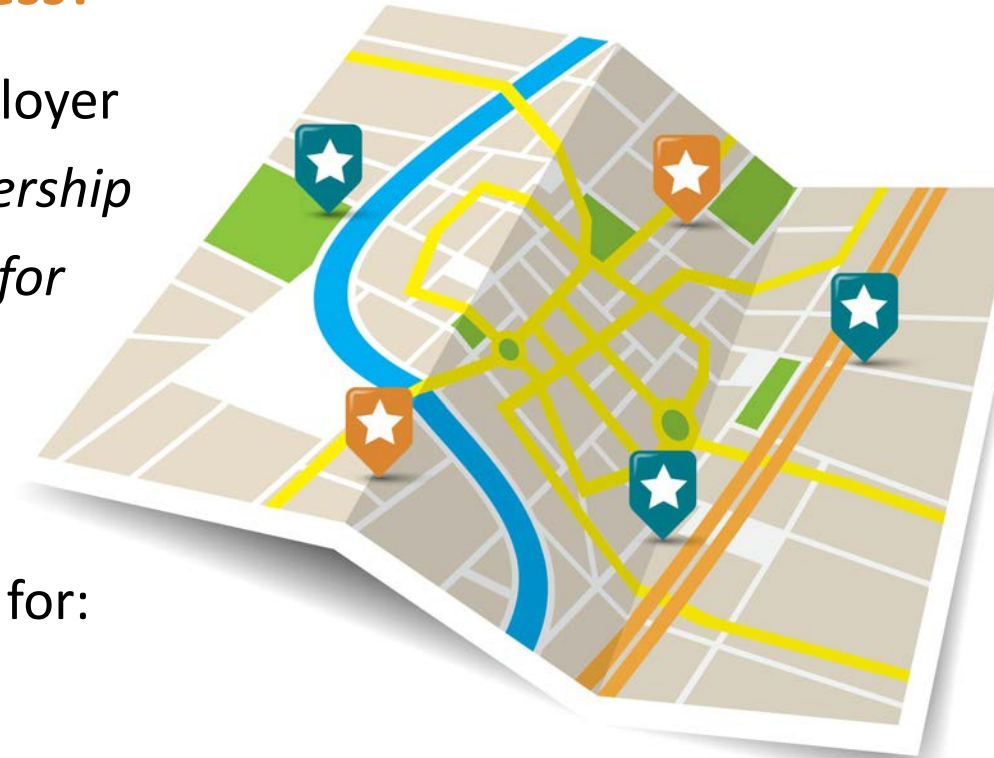
How many of you have (or will have by 12/31/21)
a Recovery Startup Business?

- a) I have a Recovery Startup Business.
- b) I do not have a Recovery Startup Business.

Aggregation Rules

What if you have employees in more than one business?

- Treat all your businesses as if you are a single employer
 - *Group together businesses with common ownership*
 - *Same method as testing for controlled groups for benefit plans*



Why does it matter?

- Entities under common control are treated as one for:
 - *Counting full-time employees*
 - *Calculating decline in gross receipts*
 - *Experiencing a full or partial government shutdown*
 - *Calculating the maximum credit per employee*

Governmental Shutdowns

Have I experienced a shutdown?

- Must be an order from a government official, not voluntary guidance
 - *Can be federal, state or local government*
 - *Must limit commerce, travel or group meetings due to COVID in a way that suspends the employer's operation of its trade or business*
- “Partial suspension of business”
 - *More than a “nominal portion” of the business (not less than 10%)*
 - *Look at different business operations within the same business*
 - *Partial suspension due to suppliers' suspensions*



Governmental Shutdowns

Have I experienced a shutdown?

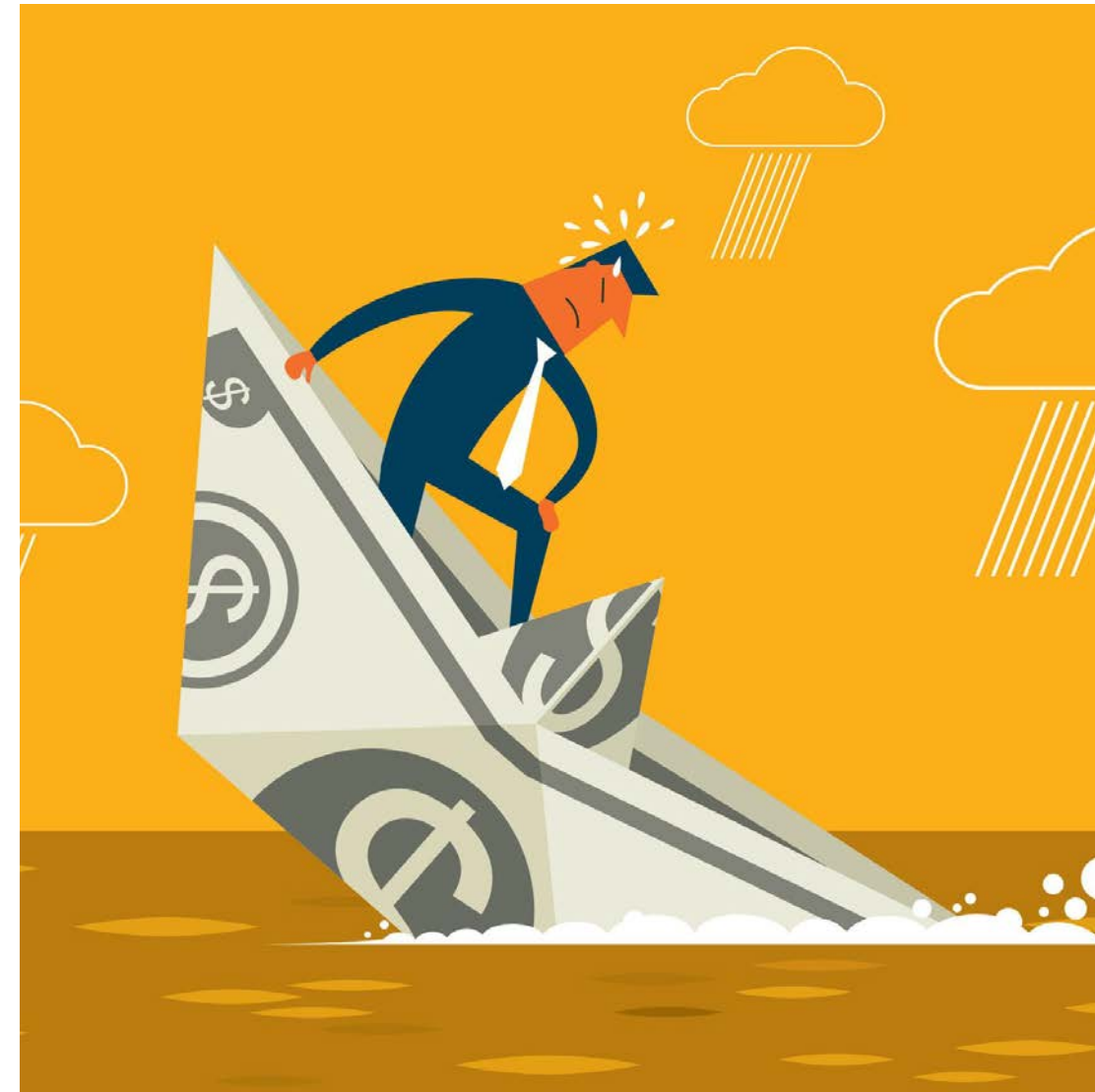


- “Partial suspension of business” (continued)
 - *NOT because customers stay home or have to socially distance*
 - *NOT because employees work from home*
- Eligibility
 - *You are eligible for qualified wages paid on dates during the shutdown*
 - *Not for the entire quarter in which a shutdown occurred*
 - *Different rule from decline in gross receipts test*

Decline in Gross Receipts

What is included in gross receipts?

- Gross receipts for a for-profit entity under section 448c of the Code
 - *Total Sales*
 - *Any income from investments, interest, dividends, rents, royalties, and annuities*
 - *Not reduced by cost of goods sold, but are reduced by basis in certain property or capital assets sold*
- Tax Exempt Organizations under section 6033
 - *Contributions, gifts, grants, and similar amounts without reduction for expenses for raising or collecting such amounts*



2020 - Eight Really Important Numbers



| Quarter Ended: | Gross Income 2019 | Gross Income 2020 | \$ Change | % Change |
|----------------|--------------------------|--------------------------|----------------------------|--------------------|
| March 31 | \$ 35,000 | \$ 30,000 | (5,000) | -14% |
| June 30 | 30,000 | 14,000 | (16,000) | -53% |
| September 30 | 25,000 | 19,750 | (3,000) | -21% |
| December 31 | 40,000 | 45,000 | 5,000 | +13% |
| Totals | <u>\$ 130,000</u> | <u>\$ 108,750</u> | <u>\$ (19,000)</u> | <u>-16%</u> |

2021 Q1 - Four Really Important Numbers



| Quarter Ended: | Gross Income, 2019 | Gross Income, 2020 | \$ Change | % Change |
|----------------|--------------------|--------------------|-----------|----------|
| December 31 | 400,000 | 300,000 | (100,000) | -25% |

| Quarter Ended: | Gross Income, 2019 | Gross Income, 2021 | \$ Change | % Change |
|----------------|--------------------|--------------------|-----------|----------|
| March 31 | 400,000 | 450,000 | 50,000 | +13% |

Qualified Wages

Who Qualifies?



- All employees
 - *Except controlling owners, their relatives, WOTC eligible employees*
- Excludes wages for FFCRA credits
- Includes healthcare costs
- Excludes retirement matching
- Credits result in expenses being excluded from income tax return for the period claiming the credit

Controlling Owners

Do Owners Qualify?

- Wages paid to related individuals are not eligible for ERC
 - *Child or a descendant of a child*
 - *Brother, sister, stepbrother or stepsister*
 - *Father, mother, stepfather or stepmother*
 - *Niece or nephew*
 - *Aunt or uncle*
 - *Son-in-law, daughter-in-law, mother-in-law, or sister-in-law*
- Controlling owner
 - *More than 50 percent of the stock of a corporation*
 - *More than 50 percent of the capital and profits interest of a partnership*



Large Employer vs. Small Employer

How many full-time employees do you have?

- **Large employers** can only claim ERC for qualified wages and healthcare costs paid to/for employees are paid even though they are not working
 - *They cannot claim ERC for any increase in wages paid to employees*
- **Small employers** can claim ERC for all employees' qualified wages and healthcare costs
- Definition of large employer vs. small employer
 - *2020: Large employers have more than 100 full-time employees in 2019*
 - *2021: Large employers have more than 500 full-time employees in 2019*

Large Employer vs. Small Employer

How many full-time employees do you have?

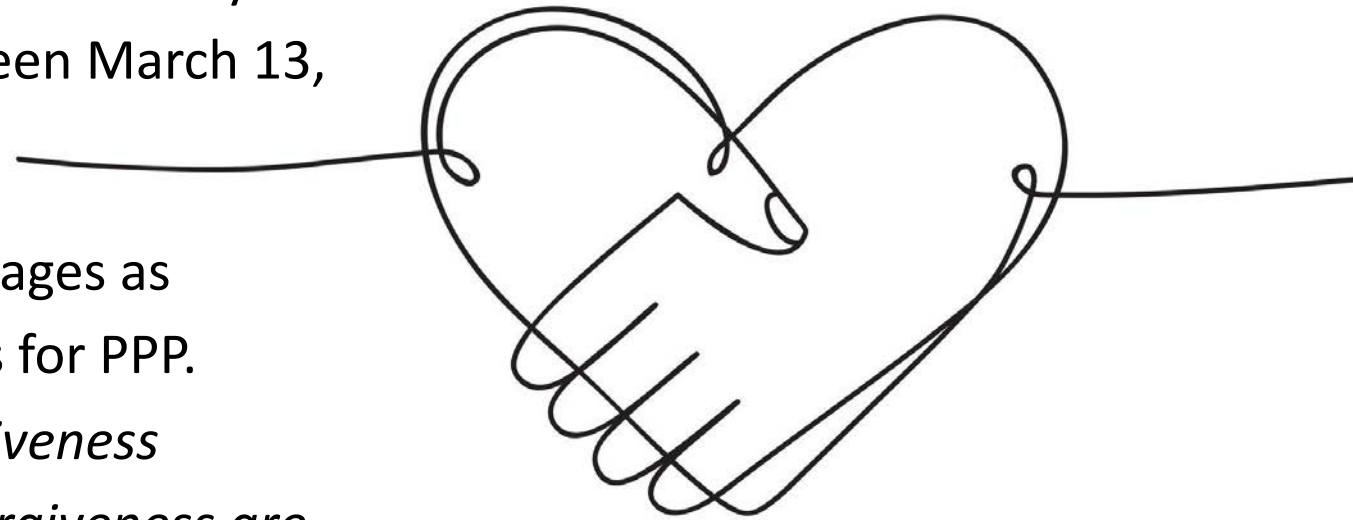
- Full-time employee
 - *Same definition as Affordable Care Act*
 - *Works 130 hours per month or 30 hours per week*
 - *Average monthly number during 2019*
- Add up part-time employees as FTEs? No.
- Don't forget aggregation rules!



ERC and PPP

So happy together

- Employers can now qualify for *both* ERC *and* PPP.
- If you had a PPP loan in 2020, you can retroactively claim ERC for qualified wages paid between March 13, 2020 and December 31, 2020.
- **The catch:** You cannot count the same wages as qualified wages for ERC and payroll costs for PPP.
 - *Payroll costs reported on a PPP Forgiveness Application that are necessary for forgiveness are ineligible for ERC, even if you could have claimed more non-payroll costs.*



Allocating payroll expenses

- Some payroll costs are ineligible for ERC but are still eligible for PPP
 - *Wages paid to owners and relatives*
 - *Wages paid to those eligible for Work Opportunity Tax Credit (2020 only)*
 - *Wages claimed for WOTC, Research & Development Credit, Credit for Active Military Members, and Empowerment Zone Credit*
 - *Wages paid after a governmental shutdown ends*
 - *Retirement matching*
 - *State and local taxes*
- Allocate as many non-ERC costs as you can to PPP and leave the rest for ERC

Claiming the Employee Retention Credit

How to get your money!

- This is a tax credit against payroll taxes.
 - *Claim it on the Form 941, Employer's Quarterly Federal Tax Return*
 - *You can reduce deposits of current payroll taxes that will be refunded*
- For 2020 and Q1 2021, you now have to amend past Forms 941
 - *Use Form 941-X*
 - *Use a different 941-X for each eligible quarter*
 - *Must be filed on paper by mail*
- Aggregated groups
 - *File 941-X's from the same entities that filed original 941's*



Claiming the Employee Retention Credit

How to get your money!



- Form 7200 to request an advance on the expected credit
 - *Able to fax to a dedicated processing center for faster turnaround time*
 - *Available only to small employers*
 - *Cannot exceed 70% of average quarterly wages paid in 2019*

Polling Question #3


So now do you think you qualify for the ERC?


- a) I am convinced that I qualify.
- b) I am pretty sure.
- c) I thought I did, but unfortunately I don't think I qualify.
- d) I still don't know. Help!


Questions



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Social Clubs Now Eligible for PPP Loans


The American Rescue Plan Act finally gives 501(c)7 Social Clubs the opportunity to apply for Payroll Protection Program (PPP) loans. But you better act fast because the funding for the second round of the PPP loans closes on March 31, 2021.

March 16, 2021 | Categories: Hospitality, PB Mares COVID-19 News | Tags: Ed Yoder, Edward Yoder, Employee Retention Credit, PPP



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Exclusive Access Period Coming to PPP; Other Changes Forthcoming

Biden-Harris administration announces changes to PPP including a 14-day exclusive access period for businesses with fewer than 20 employees.

February 23, 2021 | Categories: PB Mares COVID-19 Insights | Tags: Authored by RSM US LLP, PPP



EIDL Grants No Longer Reduce PPP Forgiveness

The Economic Aid Act, which

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Employee Retention Credit: Do You Qualify?



Do you qualify for the Employee Retention Credit (ERC)? Are you using QuickBooks and need some step-by-step guidance on how to calculate the ERC? We have developed an ERC Kit and we can help you. Complete the short form below and we will follow up with you!

CONNECT WITH US:

First Name* Last Name* *Required

Phone Number
-

E-mail*

How can we help you?*



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