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DOES YOUR BUSINESS NOW QUALIFY FOR THE EMPLOYEE RETENTION CREDIT?

..... • PREPARED BY •

ZINNER & CO. RECOVERY SPECIALISTS



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Management Consultants

Since 1938

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Does your Business Now Qualify for the Employee Retention Credit?

Recent legislative changes now allow businesses who obtained a Paycheck Protection Program (PPP) loan in 2020, to be eligible for the Employee Retention Credit (ERC), if they meet eligibility requirements. Previously, if you had received a PPP loan, you were ineligible for the ERC. The ERC has also been extended through June 30, 2021. There are differences in the both eligibility and calculation of the ERC for 2020 and 2021; below we provide all the details for each year.

2020 Credit

50% of qualified wages up to \$10,000 per year, maximum credit \$5,000 per employee, per year.

Eligibility:

Generally available to all employers regardless of size, including tax-exempt organizations, but not governmental entities. If you are a member of an aggregated group of employers, the group would be treated as a single employer for all aspects of the ERC. Eligible employers must meet the criteria of at least one of the following tests:

- a. **Government Order Test** – Was your business fully or partially suspended due to a government order due to COVID-19; **OR**
- b. **Gross Receipts Test** – Did your business have a **>50%** decline in gross receipts in a calendar quarter in **2020** compared to the same quarter in **2019**? **Important:** Gross receipts include income from all sources, total sales (less returns and allowances), plus investment income (interest, dividends, rents, royalties, annuities), as well as any grants received.

If you qualify under the government order test, only wages paid during the government shut down qualify. If using the gross receipts test eligibility starts the 1st day of the quarter in which gross receipts decline by **>50%** and eligibility continues until the first day of the quarter after the quarter that gross receipts rebound to **>80%** of gross receipts of the same quarter in 2019, but no later than January 1, 2021.

Qualified Wages:

Includes gross wages subject to social security taxes paid by an eligible employer from March 13, 2020 through December 31, 2020. Qualified health plan expenses paid by the employer are included as well (HDHPs, HRAs and FSAs all includable, HSAs & QSEHRAs are **NOT** includable). Wages paid to related parties are not qualified wages.

If you have **100** or less full-time employees in **2019**, all the wages paid to employees during an eligible period would qualify. If you have over **100** full-time employees in **2019**, only wages paid to employees not working will qualify.

A full-time equivalent for this credit is any employee who in 2019 average at least 30 hours per week or 130 hours per month. You take the total FTE for each of the 12 months and divide by 12 to determine your FTEs.

You cannot include any wages that you paid using PPP funds, FMLA wages or wages in which you received other credits available such as the paid sick leave credit. No double dipping is allowed. It is important to note that if you obtained a PPP Loan and are eligible for the ERC, you will want to review your options to allow for maximum loan forgiveness and the ERC. You cannot include any wages that you used to obtain PPP Forgiveness.

How to Claim the Credit

Reduce payroll tax deposits for federal income taxes withheld from employees, Social Security and Medicare taxes of employees and employer and claim on Form 941. File form 7200 for refunds over \$25. If you obtained a PPP loan in 2020, you can true-up the credit on the 4th quarter 941 (or amended Form 941x if Form 941 has already been filed). If you did not receive a PPP loan and determine that you are now eligible to claim the credit, you will need to amend each quarter Form 941 for 2020 that you are eligible to claim the credit.

For tax purposes, the amount of ERC will reduce the amount of deductible payroll expenses for the year of the credit.

2021 Credit

70% of qualified wages of up to \$10,000 per employee per quarter. Credit available through June 30, 2021.

Eligibility:

Generally available to all employers regardless of size, including tax-exempt organizations, colleges, university, hospitals and medical care providers. If you are a member of an aggregated group of employers, the group would be treated as a single employer for all aspects of the ERC. Eligible employers must meet the criteria of at least one of the following tests:

- a. **Government Order Test** – Was your business fully or partially suspended due to a government order due to COVID-19; **OR**
- b. **Gross Receipts Test** – Did your business have a **>20%** decline in gross receipts in a calendar quarter in **2021** compared to the same quarter in **2019**? **Important:** Gross receipts include income from all sources, total sales (less returns and allowances), plus investment income (interest, dividends, rents, royalties, annuities), as well as any grants received. There is also an election to use prior quarter gross receipts to determine eligibility (example for 1st quarter 2021 you can compare 4th quarter 2020 to 4th quarter 2019).

If you qualify under the government order test, only wages paid during the government shut down qualify. If using the gross receipts test all wages paid in each quarter that qualifies would be eligible for the credit.

Qualified Wages:

Includes gross wages subject to social security taxes paid by an eligible employer from January 1, 2021 through June 30, 2021. Qualified health plan expenses paid by the employer are included as well (HDHPs, HRAs and FSAs all includable, HSAs & QSEHRAs are **NOT** includable). Wages paid to related parties are not qualified wages.

If you have **500** or less full-time employees in 2019, all the wages paid to employees during an eligible period would qualify. If you have over 500 full-time employees in 2019, only wages paid to employees not working will qualify.

A full-time equivalent for this credit is any employee who in 2019 average at least 30 hours per week or 130 hours per month. You take the total FTE for each of the 12 months and divide by 12 to determine your FTEs.

You cannot include any wages that you paid using PPP funds, FMLA wages or wages in which you received other credits available such as the paid sick leave credit. No double dipping is allowed.

How to Claim the Credit

Reduce payroll tax deposits for federal income taxes withheld from employees, Social Security and Medicare taxes of employees and employer and claim on Form 941. File form 7200 for refunds over \$25. An employer can amend their Form 941 if they determine later that they qualified for the credit.

For tax purposes, the amount of ERC will reduce the amount of deductible payroll expenses for the year of the credit.

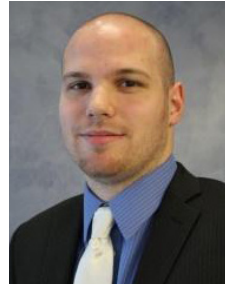
If you have questions or need assistance with the Employee Retention Credit, feel free to reach out to Zinner & Co. for help.

CONTACT US

Zinner & Co. LLP, is here to help. If you have any questions or would like to talk to someone about ways you and/or your business can take advantage of these government support programs, please reach out to one of our Recovery Specialists:



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ABOUT ZINNER

In 1938, Harry Zinner had a vision for long term success. He founded a Cleveland-based bookkeeping firm that focused on integrity, commitment and a pledge to help individuals, not-for-profit organizations and closely-held companies grow and prosper, not just for today, but for decades to follow.

Today, Zinner & Co. provides tax, accounting and management advisory services to guide businesses from startup to succession planning and help individuals create a solid financial foundation.

Our Beachwood, Ohio office is home to a dedicated team of CPAs and management advisors that provide a full slate of services beyond traditional tax and accounting. Contact us to discover how we can help you achieve your greatest financial potential.

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