

Processing Employee Retention Credits

A guide to processing CARES Act Employee Retention Credits



Update 3/12/2021

Under the CARES Act Employee Retention Credit (ERC), private-sector employers and tax-exempt organizations may be eligible for a refundable tax credit against federal employment taxes for “qualified wages” paid by employers to employees during the COVID19 pandemic. This applies to wages paid after March 12, 2020 and lasts through December 31, 2021.

Employer Eligibility

- Must fully or partially suspend operation during any calendar quarter due to orders from an appropriate government authority limiting commerce, travel, or group meetings due to Covid19 OR
- Effective July 1, 2021, started as a new business after February 15, 2020, with average annual receipts of under \$1 million. These businesses’ credit may not exceed \$50k per calendar quarter OR
- Experience a “significant decline in gross receipts” during the applicable calendar quarter
 - For 2021, significant is defined as a drop of at least 20 percent in gross receipts when compared with the same calendar quarter in 2019
 - For 2020, it is defined as a drop of at least 50 percent in gross receipts when compared with the same calendar quarter in 2019
 - Effective July 1, 2021 for “severely financially distressed employers” is defined as those that can demonstrate gross receipts are less than 10 percent of the gross receipts of the corresponding base period.

What you need to know:

- For 2020, the credit was 50% of the amount of CARES ERC earnings entered, up to \$10,000 in wages per employee paid between 3/13/2020 and 12/31/2020
- For 2021, the credit is 70% of the amount of CARES ERC earnings entered, up to \$10,000 in wages per employee per quarter
- Beginning July 1, 2021: new businesses that started after February 15, 2020 and have average annual receipts of less than \$1 million may also qualify for the credit, up to \$50k per quarter
- The ERC will net against the payroll's Federal tax liability (except for FUTA). If the credit exceeds the payroll's Federal tax liability, the remainder of the credit will be applied toward future payrolls' Federal tax liability.
- Credit not absorbed by the end of the quarter will be reported as an overpayment on your quarterly tax return. The IRS will refund the overpayment when the quarterly return is processed.
- For 2021, small employers (less than 500 full-time employees in 2019) may claim an advance. Form 7200 is used to make an advance request and it must be reconciled with the ERC and any other credits for which the employer is eligible on Form 941, with the employer's quarterly federal tax return.

CARES Retention Wage

The non-payable amount used to report the full amount of qualified employee wages for the Employee Retention Credit. Wages under the standard FMLA are ineligible for this credit.

CARES Health Credit

The non-payable amount of qualified health plan expenses that are allocated to the employee wages for the ERC.



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