



Can You Take the 2021 Employee Retention Credit?

February 2, 2021 by Frank Monetti, CPA, MAcct

In December of last year Congress changed the Employee Retention Credit for the first two quarters of 2021 to allow employers a tax credit up to \$14,000 per employee. It also allowed businesses that received Paycheck Protection Program funds to qualify for the credit.

To qualify for the credit, an employer must operate a business (non-profits are generally not eligible) between January 1, 2021 and June 30, 2021 and either:

1. Experience a full or partial suspension of operations during the period due to governmental orders, OR
2. Experience a decline of more than 20% in gross receipts when compared to the same quarter in 2019 (for example, first quarter 2021 vs first quarter of 2019)

If an employer was not in business in 2019, the comparative quarter can be in 2020 (for example first quarter 2021 vs first quarter 2020).

A key takeaway is that a business doesn't have to satisfy both the suspension test and the gross receipts test to qualify. It's possible for a business to qualify for the credit if it increases gross receipts while experiencing a partial suspension, or if it does not experience a suspension but still has a decline in gross receipts.

The credit is based on wages paid between January 1, 2021 and June 30, 2021, and is computed per employee for each quarter. The maximum wages per employee are \$10,000 per quarter, which results in a maximum credit of \$14,000 (\$10,000 x 2 quarters x 70%). Wages paid after June 30, 2021 are not eligible for the credit.

Only the wages paid during the suspension are eligible if an employer experienced a suspension, however all wages paid during the quarter are eligible if an employer experienced a decline in gross receipts. There are further restrictions on businesses that average over 500 employees.

Businesses can claim the credit by filing Form 941, Employer's Quarterly Federal Tax Return. An eligible business may be able to lower or suspend its federal payroll tax deposits now instead of waiting to claim the credit when the form is filed. Specific instructions and exceptions are available on the IRS website, through most payroll processors, and our office.

The IRS is expected to issue more guidance on this, and we will monitor any new developments. If you think your business might benefit from this credit, now is the time to act to get the highest benefit possible.