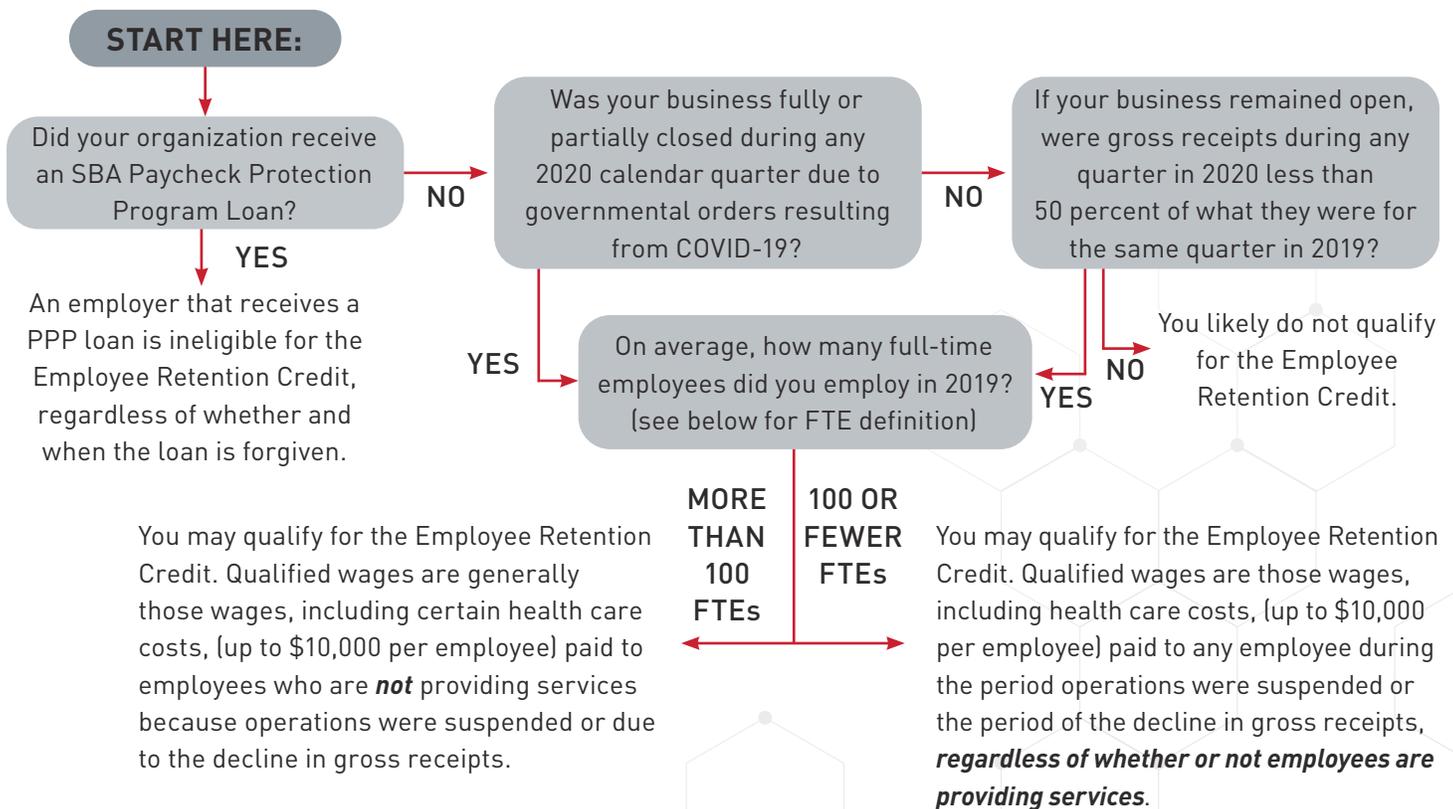


# EMPLOYEE RETENTION CREDIT: WHAT BUSINESSES SHOULD KNOW

The *Coronavirus Aid, Relief, and Economic Security Act*, passed on March 27, 2020, provides a refundable tax credit against certain employment taxes equal to 50 percent of up to \$10,000 of qualified wages (including certain health plan costs) that an eligible employer pays to employees after March 12, 2020, and before January 1, 2021. Thus, the maximum credit is \$5,000 (50 percent × \$10,000) per employee.

## WHO QUALIFIES FOR THIS CREDIT?



## HOW IS THE CREDIT CALCULATED?

**Calculate the number of employees.** The term “full-time employee” (FTE) means an employee who, with respect to any calendar month in 2019, had an average of at least 30 hours of service per week or 130 hours of service in the month. An employer that operated its business for the entire 2019 calendar year determines the number of FTEs by taking the sum of the number of FTEs in each calendar month in 2019 and dividing that number by 12.

**Determine qualified wages.** The determination of which wages are “qualified wages” depends on the average number of FTEs employed by the eligible employer in 2019:

- **Larger employers (more than 100 FTEs):** Qualified wages are generally wages, including certain allocable health plan expenses, (up to \$10,000 per employee) paid to employees who aren’t providing services because operations were suspended or due to the decline in gross receipts. Note: Only count wages up to the amount the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.
- **Smaller employers (fewer than 100 FTEs):** Qualified wages are wages, including allocable health plan expenses, (up to \$10,000 per employee) paid to any employee during the period that operations were suspended or the period of the decline in gross receipts, regardless of whether employees are providing services.

For more information on determining the amount of allocable qualified health plan expenses, see [IRS FAQs #62-71](#).

***Example:** Employer pays employee \$8,000 between April and June 2020 and \$8,000 between July and September 2020. The maximum credit with respect to those wages should be \$4,000 for Q2 and \$1,000 for Q3 (for a total of \$5,000).*

## HOW DOES AN EMPLOYER CLAIM THE CREDIT?

If your business is eligible for the Employee Retention Credit, you can receive the credit in one of three ways:

1. **Quarterly payroll filings.** Claim the Employee Retention Credit on your quarterly employment tax return (Form 941) beginning with the second quarter of 2020. Please note, qualified wages paid during the first quarter of 2020 should be reported on the second-quarter Form 941.
2. **Reduce employment tax deposits.** Employers can be immediately reimbursed for the credit by reducing the amount of payroll taxes withheld from employees’ wages the employer is required to deposit with the U.S. Department of the Treasury.
3. **Advance refund.** Submit [Form 7200](#) to receive an advance refund of the Employee Retention Credit any time during a quarter. An employer may request a refund equal to the anticipated credit amount for that quarter, less any amounts received through reduction of payroll deposits. The completed Form 7200 may be faxed to 855.248.0552.

An employer should reconcile any reductions to employment tax deposits or advance refunds received on its Form 941 for the applicable quarter.

## WHAT DOCUMENTATION SHOULD BE RETAINED?

Employers should retain the following documentation to support their eligibility for the Employee Retention Credit:

- **Qualifying reason.** If your organization qualifies due to closures related to a governmental order, make sure to retain a copy of the relevant order(s). For more information on which governmental orders may be considered for purposes of the Employee Retention Credit, [see IRS FAQs #28–29](#).

If your organization qualifies under the gross receipts test, document the support to show the decline in gross receipts for the qualifying period. An employer is considered to have a significant decline in gross receipts for the period beginning with the first calendar quarter in 2020 for which its gross receipts are less than 50 percent of gross receipts from the same calendar quarter in 2019 and ending with the earlier of January 1, 2021, or the first calendar quarter after the quarter for which gross receipts are greater than 80 percent of gross receipts for the same calendar quarter in 2019.

- **Employee count calculations.** Since the amount of eligible qualified wages depends on FTE count, maintain records of FTEs, including how you arrive at the average number of FTEs for 2019 for purposes of the Employee Retention Credit computations.
- **Calculations to support the amount of the Employee Retention Credit.** Note, all records of employment taxes should be retained for at least four years and be available for IRS review. These records should include documentation to show how you figured the amount of qualified health plan expenses allocated to wages.
- **Credit reimbursement method.** Since there are multiple ways to receive the Employee Retention Credit, you should maintain records of the method(s) your business uses to receive the credit, which ultimately will be reported on your quarterly payroll tax filings. Note: Keep a copy of any completed Form(s) 7200 you file with the IRS.

**Need assistance determining if your organization is eligible for the Employee Retention Credit? Need help calculating the amount of your eligible credit? Reach out to a Trusted BKD Advisor™ for help today!**