

# Small Business Pandemic Support

## EMPLOYEE RETENTION TAX CREDIT

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The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) includes a reimbursement for keeping employees on the payroll throughout the pandemic. This is done through a quarterly refundable tax credit of up to \$5,000 for each employee retained from March 13, 2020 and December 31, 2020. It is important to know you cannot apply for this program if you have received a Paycheck Protection Program loan.

## Is my business eligible?

To be eligible for the Employee Retention Tax Credit you must have either:

- **Completely or partially suspended business operations** during any calendar quarter in 2020 due to orders from a government authority. For example, a partial closure can include a restaurant that cannot seat customers because of government order, but can still provide take-out service — or even if they cannot seat as many customers because of pandemic-related orders. For another example, a child care provider who must have fewer children per classroom due to government social distancing orders would also qualify. The one exception — if your employees are working from home instead of an office, they are not considered to be a partial suspension of your business operations.
- **Experienced a “significant decline in gross receipts”** during a calendar quarter equal to less than 50% of gross receipts in the same quarter in 2019. If you qualify based on a decline of gross receipts, you can use this qualification until one quarter of your gross receipts is greater than 80% of the same quarter in 2019. For example, let’s say in Quarter Two your gross receipts were 35% of 2019 levels. Then, in Quarter Three you jumped up to 95% of gross receipts from 2019. You still qualify in Quarter Three because of the reduced Quarter Two levels. In Quarter Four, you will no longer qualify if your gross receipts are still above 50% of 2019 levels.

**NOTE:** You qualify for the credit if you have either one of the conditions above. That is, you can have gross receipts of 100% of 2019 levels, but qualify because you’re working under a partial closure due to social distancing requirements.

## How does it work?

The Employee Retention Tax Credit is equal to 50% of up to \$10,000 in qualified wages (including amounts paid toward health insurance) per full-time employee (part-timers are not eligible) for all calendar quarters beginning March 13, 2020 and ending December 31, 2020. The maximum credit per employee between March 13, 2020 and December 31, 2020 is \$5,000.

Here’s an example: Let’s say you have an employee who has gross wages of \$60,000 per year. That means each quarter they have gross wages of \$15,000. In the first quarter you could request half of the gross wages up to \$5,000. In this case, half of the gross wages of \$15,000 would be \$7,500, so you could request the full amount for the year of \$5,000.

If you had less than 100 employees on average in 2019, you can claim credit for every qualified employee whether they are working or not (but of course they need to be on your payroll and not unemployment). If you had more than 100 employees on average in 2019, you can only use payroll for those employees who are actively working.

### Some other important notes:

You cannot claim self-employment income. So, if you are a sole proprietor you can use the income from an employee, but not yourself.

If you have wages covered by the Families First Coronavirus Response Act, Paid Family and Medical Leave, or through a Work Opportunity Tax Credit, they will not count for the program.

## How do I get reimbursed?

You get reimbursed through a “refundable tax credit.” That’s a technical way of saying the United States Treasury pays you using money from employment taxes. Think of this term as simply a “reimbursement” for the applicable wages.

You can get reimbursement in two ways:

- First, you can take the money owed off your quarterly employment tax returns (this is typically through an IRS form 941). Any credit above what you are paying in federal employment tax can be requested using the [IRS Form 7200](#).
- Second, you can request payment any time (even more than once in a quarter) using the [IRS Form 7200](#) (even if you didn’t withhold your payroll taxes). The [Form 7200 is easy, and since it can be done as many times as you want, it’s an easier way to ensure a positive cash flow for your business.](#)

## What else should I know?

Remember, the Employer Retention Tax Credit is only for full-time employees. Also, if you received a Paycheck Protection Program Loan, you are ineligible for the Credit.

## For more information:

Visit the [US IRS website](#).