

November 2021

Dear Client:

Under the American Rescue Plan Act and previously under the Consolidated Appropriations Act of 2021, the employee retention credit, a provision of the CARES ACT, was extended and expanded.

The attached summary explains how the ERC credit is computed for 2021. The credit is applied for as part of your quarterly Form 941. The credit is refundable.

If you missed the credit, you can file Form 941X to claim it.

The key to the credit is if you qualify for it by having a decline of 20% or more in gross receipts for first, second, third or fourth quarter in 2021 when compared to the same quarter in 2019.

The rules can be complicated but if you think you qualify, please contact your representative at Felix & Gloekler, P.C.

Sincerely,

*Felix and Gloekler, P.C.*

Felix and Gloekler, P.C.

## Employee Retention Credit for Tax Year 2021

What employers are eligible?

Eligible employers that are entitled to claim the Employee Retention Credit are private-sector business and tax-exempt organizations that carry on a trade or business during calendar year 2021 and either:

- Have operations that were fully or partially suspended during any calendar quarter in 2020 due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes) due to COVID-19; or
- Experienced a significant decline in gross receipts during the calendar quarter.

For 2021, a significant decline in gross receipts of 20% or more when company gross receipts for 2021 calendar quarter compared to the same quarter in 2019.

Example: ABC company gross receipts by quarter for 2021 vs 2019 are as follows:

	<u>2021</u>	<u>2019</u>	<u>Change</u>
1 <sup>st</sup> quarter	\$ 200,000	\$ 150,000	\$ 50,000
2 <sup>nd</sup> quarter	200,000	300,000	(100,000)
3 <sup>rd</sup> quarter	180,000	200,000	(20,000)
4 <sup>th</sup> quarter	150,000	200,000	(50,000)

ABC Company is eligible for ERC for 2<sup>nd</sup> and 4<sup>th</sup> quarter of 2021.

The credit is computed based on 70% of the first \$10,000 qualified wages paid that quarter to eligible employees. Thus, maximum credit is \$7,000 per employee per eligible quarter. The annual maximum of \$28,000 per employee.

Wages paid to majority owner 50% or more and employees related to majority owner do not qualify for the credit. Wages claimed as part of the PPP loan program are not eligible for the ERC.

The credit is claimed on Form 941 which was recently revised by IRS on June 2021.

If you missed claiming the credit, you will have to file Form 941X to claim the credit.

If you need help in this area, please contact your advisor at Felix & Gloekler, PC.