

Five Steps to Claim an Employee Retention Tax Credit

The Coronavirus Aid, Relief, Economic Act (CARES Act) created an employee retention tax credit that employers may use to help increase cash flow/liquidity in calendar year 2020.

Step 1. Am I an eligible employer? If all the answers below are “yes,” move to Step Two.

- Was I carrying on a trade or business, or a non-profit activity, in 2020?
- Do I have at least one employee who is still on my payroll?
- Have I paid wages and/or health insurance benefits after March 12, 2020?
- Am I declining or ineligible to take a Paycheck Protection Program loan?



Step 2. Is this an eligible quarter (usually meaning a calendar quarter)?

- Was my business suspended (fully or partially) by a government order due to the COVID-19 virus
OR
- Are my gross receipts for this quarter in 2020 less than 50 percent of the gross receipts from the same quarter in 2019?



Step 3. Do I have eligible employees?

- Have I paid wages (which includes and could be limited to health plan expenses) to employees? (Exclude those employees/wages that were already taken into account for other wage/employee-related tax credits.)
- Have I paid wages to a business owner’s relative, or to a majority owner of the business? Exclude these employees and their wages.



Step 4. Do I have eligible wages (including health insurance benefits)?

- If I have 100 or fewer employees, go to step four. All wages qualify.
- If I have more than 100 employees, count only wages paid to employees who performed reduced/no¹ work for you this quarter due to the circumstances in Step 2.



Step 5. Calculating the credit

- Calculate each eligible employee’s eligible wages paid in an eligible quarter. The first \$10,000 of such wages count for each employee from 3/12/2020 through 12/31/2020. This \$10,000 can be paid over multiple quarters. Add all such creditable wages together.
- Multiply these aggregated eligible wages by 50 percent. **This is your credit.**
- The credit applies against the employer half of Social Security tax (6.2 percent of wages) on your quarterly FICA tax return (Form 941 for most). If more credit is allowed than FICA tax on wages paid for such quarter, the IRS will advance you a refundable tax credit payment for the difference.



¹ Additional guidance is necessary