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CERTIFIED PUBLIC ACCOUNTANTS, BUSINESS CONSULTANTS & WEALTH MANAGEMENT

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**Disclaimer: Nicholas A. Papakyrikos, CPA PC has put together this guide from various resources that are publicly available to help address the many questions we are getting from our business owners. This is not a substitute for professional advice from an employment attorney. We recommend you seek out advice from your employment attorney.*

Summary of the Employee Retention Tax Credit Provision of the CARES Act

One of the many key provisions in the CARES Act is the Employee Retention Credit. This credit is geared towards employers subject to partial or full COVID-19 related closures. This credit impacts compensation, furlough, and layoff strategies. If you are considering making workforce reductions, it is important to understand your options under the CARES Act.

We have put the following summary together to empower employers that may be faced with difficult decisions in the days ahead.

This credit is equal to 50% of qualified wages against quarterly employment taxes to offset up to \$10,000 of wages paid per employee for wages paid after March 12, 2020, and before January 1, 2021.

Eligibility

This program is available to all types of employers, regardless of size. Employers must meet one of the two following requirements to qualify:

1. The Employee Retention Payroll Tax Credit is available to employers whose operations were fully or partially suspended as a result of a government order due to COVID-19.
2. Gross receipts declining by more than 50% (when compared to the same quarter last year) is also an indication of an employer's eligibility.

If your business qualifies under the gross receipts test:

- It will remain qualified until the quarter after the quarter in which their gross receipts exceed 80% of the gross receipts for the same quarter in the prior year.
- A close eye will need to be kept on eligibility and ineligibility because businesses often do not know their gross receipts until after the close of each quarter. The IRS has been directed to waive penalties for failure to deposit payroll taxes only if it is due to the anticipation of this credit.

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Also, important to note,

- Nonprofit 501(c)(3) entities are also eligible to take advantage of this credit.
- Employers taking advantage of certain government loans, such as the small business interruption loan, are not eligible for this tax credit.
- Health benefits are considered eligible wages under this credit.

Company size considerations

If you are an employer with 100 or fewer employees,

- Wages of all employees are eligible for the credit if the employer meets at least one of the two eligibility requirements mentioned above.

If you are an employer with more than 100 employees,

- Only the wages for employees who did not provide services as a result of either two eligibility events above would be eligible for the credit.

How do I receive my credit?

Employers can receive their credit immediately by reducing their required deposits of payroll taxes that have been withheld from employees' wages. Employers taking the credit will be required to report their total qualified wages and related healthcare expenses each quarter through their normal quarterly reporting on form 941, beginning in the second quarter.

Employers may receive an advance payment by submitting form 7200 if their employment tax deposits are not enough to cover the credit.

Please contact us to review which credits from the FFCRA and CARES Act will be most beneficial for your business.

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