

## **Employee Retention Tax Credit: What You Need to Know**

### **Overview**

The employee retention tax credit is a broad based refundable tax credit designed to encourage employers to keep employees on their payroll. The credit is 50% of up to \$10,000 in wages paid by an employer whose business is fully or partially suspended because of COVID-19 or whose gross receipts decline by more than 50%.

### **Availability**

1. The credit is available to all employers regardless of size including tax exempt organizations. There are only two exceptions: (1) state and local governments and their instrumentalities and (2) small businesses who take Small Business Loans
2. To qualify, the employer has to meet one of two alternative tests. The tests are calculated each calendar quarter – Either
  - the employer’s business is fully or partially suspended by government order due to COVID-19 during the calendar quarter or
  - the employer’s gross receipts are below 50% of the comparable quarter in 2019. Once the employer’s gross receipts go above 80% of a comparable quarter in 2019 they no longer qualify after the end of that quarter.

### **Calculation of the Credit**

The amount of the credit is 50% of the qualifying wages paid up to \$10,000 in total

It is effective for wages paid after March 13<sup>th</sup> and before December 31, 2020

The definition of qualifying wages varies by whether an employer had, on average, more or less than 100 employees in 2019

Less than 100. If the employer had 100 or fewer employees on average in 2019, then the credit is based on wages paid to all employees whether they actually worked or not. In other words, even if the employees worked full time and got paid for full time work, the employer still gets the credit.

Greater than 100. If the employer had more than 100 employees on average in 2019, then the credit is allowed only for wages paid to employees who did not work during the calendar quarter.

In both cases, “wages” includes not just cash payments but also a portion of the cost of employer provided health care.

### **Payment**

Employers can be immediately reimbursed for the credit by reducing the amount of payroll taxes they have withheld from employees’ wages that they are required to deposit with the Treasury.

