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made a number of changes to the employee retention tax credits previously made available under the Coronavirus Aid, Relief, and Economic Security Act (CARES Act), ...

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The Internal Revenue Service is urging employers to take advantage of the newly-extended employee retention credit, designed to make it easier for businesses that, despite challenges posed by COVID-19, choose to keep their employees on the payroll.

The Taxpayer Certainty and Disaster Tax Relief Act of 2020, enacted Dec. 27, 2020,

wages are limited to $10,000 per employee per calendar quarter in 2021. Thus, the maximum ERC amount available is $7,000 per employee per calendar quarter, for a total of $14,000 in 2021.

Employers can access the ERC for the 1st and 2nd quarters of 2021 prior to filing their employment tax returns by reducing employment tax deposits. Small employers (i.e., employers with an average of 500 or fewer full-time employees in 2019) may request advance payment of the credit (subject to certain limits) on Form 7200, Advance of Employer Credits Due to Covid-19, after reducing deposits. In 2021, advances are not available for employers larger than this.

Effective Jan. 1, 2021, employers are eligible if they operate a trade or business during Jan. 1, 2021, through June 30, 2021, and experience either:

1. A full or partial suspension of the operation of their trade or business during this period because of governmental orders limiting commerce, travel or group meetings due to COVID-19, or
2. A decline in gross receipts in a calendar quarter in 2021 where the gross receipts of that calendar quarter are less than 80% of the gross receipts in the same calendar quarter in 2019 (to be eligible based on a decline in gross receipts in 2020 the gross receipts were required to be less than 50%).

Employers that did not exist in 2019 can use the corresponding quarter in 2020 to measure the decline in their gross receipts. In addition, for the first and second calendar quarters in 2021, employers may elect in a manner provided in future IRS guidance to measure the decline in their gross receipts using the immediately preceding calendar quarter (i.e., the fourth calendar quarter of 2020 and first calendar quarter of 2021, respectively) compared to the same calendar quarter in 2019.

In addition, effective Jan. 1, 2021, the definition of qualified wages was changed to

employer had a decline in gross receipts regardless of whether the employees are providing services.

Retroactive to the Mar. 27, 2020, enactment of the CARES Act, the law now allows employers who received Paycheck Protection Program (PPP) loans to claim the ERC for qualified wages that are not treated as payroll costs in obtaining forgiveness of the PPP loan.

For more information, see COVID-19-Related Employee Retention Credits: How to Claim the Employee Retention Credit FAQs

Payroll