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Mar. 17, 2022



The last two years have been challenging for small and medium sized businesses in so many ways—a rocky economy, labor shortages, health and safety issues and more. Significant federal and state legislation, like Paycheck Protection Program (PPP) loans and tax assistance, has sought to help businesses ride the pandemic out, keeping the doors open and paying their employees. But all of this can add more complexity to tax season.

In this article, we'll review the most important [employer tax credits](#) for 2021. Many of these credits can still be gained retroactively for the 2020 tax year too.

The Employee Retention Tax Credit (ERTC)

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If your company is eligible, the 2020 tax year credit is 50% of qualified wages paid during per calendar quarter. The total amount of qualified wages (including allocable qualified health plan expenses) for all 2020 calendar quarters is limited to \$10,000, with a maximum credit value of up to \$5,000 per employee. But if you started your business after February 15, 2020, it could be considered a “recovery startup business.” If so, the maximum credit is \$50,000.

The credits increase substantially for 2021 calendar quarters with 70% of qualified wages paid during the applicable quarter eligible. The total amount of qualified wages (including allocable qualified health plan expenses) is also increased to \$10,000 per employee, per quarter, with a maximum credit value of up to \$7,000 per employee, per quarter.

“Need to Know” facts about the ERTC:

- The ERTC can be applied to wages paid through September 30, 2021.
- Even if you received a PPP loan, you may still be eligible.
- You can file for this tax credit retroactively for 2020 by filing form 941-X.

Additional resources can be found [here](#) and on the [ERTC FAQ page](#) on IRS.gov.

Research & Development Credit (R&D)

An often-overlooked tax credit is the federal research and development tax credit (R&D Credit). The goal of this tax credit is to spur business investment in scientific and technological development. Companies can generate a net, dollar-for-dollar tax credit, used to offset tax liability, of typically between 6% – 8% of qualified R&D spending.

You don't have to be a large company to take advantage of this credit either. If your company has developed or improved a product, process, technique, formula, or

invention, it may qualify for an R&D credit. For example, a [California-based machine](#)

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- Many states also offer additional R&D tax credits for qualifying research activities performed within their borders.

Find out if you qualify for R&D tax credits [here](#).

The Work Opportunity Tax Credit (WOTC)

The [Work Opportunity Tax Credit](#) (WOTC) is a federal tax credit available to employers who hire and retain qualified veterans and other individuals from [target groups](#) that historically have faced obstacles in gaining employment. Taxable employers and qualified tax-exempt companies who hire someone that is a member of a WOTC target group can apply for a general business credit against their income tax. Any business, regardless of size or industry, may be eligible to claim tax credits under the WOTC program.

The amount of the tax credit available under the WOTC program varies based on the employee's target group, total hours worked, and total qualified wages paid. As of 2020, most target groups have a maximum credit of \$2,400 per eligible new hire, but some may be higher. Hiring certain qualified veterans, for instance, may result in a credit of \$9,600 per eligible new hire.

“Need to Know” facts about the WOTC:

- Because there is no limit to the number of individuals employers can hire as part of the program, there is no cap on the amount of credits employers can claim.
- It's essential to keep accurate records of screening compliance rates, wages paid, and hours worked.

Learn more about WOTC requirements and processes [here](#).

Disaster Relief Tax Credit

The last few years has seen significant natural disasters such as hurricanes, wildfires

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- Your employee, office or business must be located in a [designated disaster zone](#).
- This tax credit doesn't include eligible wages under the ERTC, WOTC or other wage-based tax credits.
- For disasters that occurred from January 1, 2020, through February 24, 2021, the credit is equal to 40% of the qualified wages paid to each eligible employee, up to \$6,000 (maximum credit is \$2,400 per eligible employee).

To take advantage of all the available employer tax credits it's essential to have the technology to track and analyze your payroll data. With the right payroll compliance software, you can gain visibility into existing programs and identify new incentive opportunities automatically.

ADP has over 45 years of experience helping businesses of all sizes earn billions of dollars in tax credits. Over the past two years, we've helped identify \$1.3 billion in CARES Act employee retention credits used for 1.4 million employees across 60,000 clients. [Our experts leverage a proprietary database](#) of more than 3,000 tax credit and incentive programs over 1,800 zones for eligible credits. They have reviewed over 4,700 regulatory changes for impact and made more than 625 programming, process, or workflow changes based on new or modified regulations nationwide.

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Steven Bright is VP of Business Incentives at ADP.

Payroll • Technology

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