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CARES ACT | EMPLOYEE RETENTION CREDIT American Rescue Plan Update As of 4/29/2021

CARES Act – The Coronavirus Aid, Relief, and Economic Security (CARES) Act was signed into legislation to provide economic relief to employers and employees as a result of the COVID-19 pandemic. Part of the act is the **Employee Retention Credit**.

- The **Employee Retention Credit** was offered as a refundable tax credit to be used against certain employment taxes equal to 50% of qualified wages and employer health plan expenses paid from March 12, 2020 through December 31, 2020. The Consolidated Appropriations Act extended that credit through 6/30/2021 and increased the amount to 70%
- **The American Rescue Plan updated those provisions.** Among other relief provided, the utilization of the Employee Retention Credit first outlined in the CARES Act was extended and modified for the second time with the passage of the **American Rescue Plan Act** signed on March 11, 2021. Eligible employers are able to take advantage of this program through the end of 2021.

Employee Retention Credit Highlights

What is it?

*Employers may be eligible for a 70% refundable payroll tax credit against **qualified wages**.*

- Qualified wages = gross wages + employer health plan expenses
- Applicable to the first \$10,000 of qualified wages per quarter for each employee for a maximum tax credit of \$7,000 per quarter and \$28,000 for the year per employee.
- The Employee Retention Credit may now be taken in conjunction with a Paycheck Protection Program loan. However, wages paid with a PPP loan are not qualified wages and are not eligible for the tax credit.

Qualifications: Clients are eligible for the credit if they meet one of the following options:

- Business operations were partially or totally shut down due to the Coronavirus
- Gross receipts are less than 80% when compared to the same quarter of 2019. Employers not in existence in 2019 are compared to the same quarter of 2020.

Employer size is a determining factor:

- Employers with greater than 500 full-time employees during 2019 may claim this credit for employees who are on the payroll, but not currently working.
- Employers with 500 or less full-time employees during 2019 may claim for all employees

Amending 2020 Returns (UPDATE: 1/25/21):

- Employers may wish to amend 2020 returns in order to take advantage of the tax benefits outlined within the Employee Retention Credit program first established in the CARES Act.
- Employers wishing to retroactively claim the Employee Retention Credit for 2020 may amend their Q2, Q3, and/or Q4 2020 returns with the applicable credits. Prior quarter adjustments will be needed in order to start this process. **(For clients new to Heartland, they should work with their CPA for any prior quarter adjustments needed for past closed quarters.)**
- Employers may not claim their full Employee Retention Credit for 2020 by only amending their Q4 return. This option was only valid for *original* Q4 2020 returns per [the IRS guidance](#).

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Example of Credit Calculation:

John Smith is paid semi-monthly:

- Gross Wages = \$2,000 per pay period
- Employer Health Plan Expense = \$200 per pay period

Retention Credit:

- 70% of Gross Wages = $(.70 \times 2000) = \$1400$
- 70% of Employer Health Plan Expense = $(.70 \times 200) = \$140$
- Total retention credit for this employee for this pay period = \$1540

Clients have up to \$7,000 per employee per quarter for a maximum of \$28,000 for the year.

Heartland will process the client's Employee Retention Credits within the payroll submission and provide the applicable refund in 5-7 business days based on their federal tax liability for that pay period. Unused credits will be rolled over for future payroll submissions until the full credits have been utilized. At the end of the quarter if there are outstanding credits owed this information will be reported on the client's 941 and will be refunded to them directly from the IRS.