



## Employee Retention Tax Credit

The Employee Retention Credit, established in the Coronavirus Aid, Relief, and Economic Security (CARES) Act, is a fully refundable tax credit for employers equal to 50% of qualified wages paid to employees.

### What is an Eligible Employer?

The credit is available to all employers, regardless of their size and including tax-exempt organizations, that are in operation during 2020. Eligible employers must meet one of the following tests, which are calculated each calendar quarter:

- The employer fully or partially suspends operation during any calendar quarter in 2020 due to a government order related to COVID-19
  - Partially suspended in this case means that the employer's operation can continue, but not at its normal capacity
- The employer's gross receipts are less than 50% of the same quarter in 2019
  - Once an employer's gross receipts are more than 80% of a comparable quarter in 2019, they will no longer qualify for the credit after that quarter

The following are ineligible for the Employee Retention Credit:

- Governmental employers
- Self-employed individuals (for their self-employment services or earnings)

### What are Qualified Wages?

The amount of the credit is 50% of qualifying wages paid to an employee. Qualified wages are capped at \$10,000 per employee (meaning the maximum credit per employee is \$5,000) and must have been paid after March 12, 2020 and before January 1, 2021. In addition, qualified wages include the employer portion of health benefits.

What counts as qualified wages are determined by how many employees an employer had on average in 2019.

- *More than 100*: If the employer had more than 100 full-time employees on average in 2019, qualifying wages are only those paid to employees who did not work during the calendar quarter. Qualified wages in this case cannot be more than what an employee would have been paid for working the same amount in the 30 days before the employer met one of the two tests listed above.
- *100 or less*: If the employer had 100 or fewer full-time employees on average in 2019, qualifying wages are those paid to all employees, no matter whether they worked or not.



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## **How Can Employers Claim the Employee Retention Credit?**

Eligible employers can claim the credit on their federal employment tax returns by reporting their total qualified wages and the related credits for each calendar quarter.

To be immediately reimbursed for the credit, employers can reduce the amount of payroll taxes they have withheld from employees' wages they are required to deposit with the IRS by the amount of the credit. If an employer elects to do so, they will not be penalized. If the tax deposits aren't enough to cover the credit, the employer can receive an advance on the credit by submitting [Form 7200, Advance Payment of Employer Credits Due to COVID-19](#).

## **Interaction with SBA Loans**

Employers are ineligible to receive the Employee Retention Credit if they have received a Paycheck Protection Program (PPP) loan.

## **Resources**

[IRS Guidance on Employee Retention Credit](#)

[IRS Employee Retention Credit FAQs](#)

[Treasury Department Employee Retention Credit FAQs](#)

[IRS Notice 2020-22: Relief from Penalty for Failure to Deposit Employment Taxes](#)

[Form 7200, Advance Payment of Employer Credits Due to COVID-19](#)