Practitioner COVID-19 Employee Retention Payroll Tax Credit Worksheet

For reviewing 2020 and 2021 payroll tax returns

Client: ____________________________

Introduction

This worksheet is for tax professionals to use when reviewing their clients' payroll tax returns to determine whether the client has claimed all available Employee Retention payroll tax credits.

This worksheet is to be used when reviewing payroll tax returns for the 2020 and 2021 calendar years.

Step 1 – Review payroll tax returns for Employee Retention Credit (ERC)

Note: The Employee Retention Credit was originally not available to employers that received PPP loans, but the Taxpayer Certainty and Disaster Tax Relief Act (TCDTRA), passed on December 27, 2020, now allows PPP loan recipients to claim the Employee Retention Credit.

Form 941:	**Q1**	**Q2**	**Q3**	**Q4**	**Total**
ERC wages on line 21					
ERC health plan expenses on line 22					
ERC credits on line 11c*					
ERC credits on line 13d*					
*Sum of lines 11c and 13d reduce deductible wages on the income tax return (see Step 4)					

	If ERC wages and credits appear on Form 941	**If ERC wages and credits *DO NOT* appear on Form 941**
What this means	Your client and their payroll company are aware of the credits and have claimed them	Either: • Client and payroll company totally missed the credits; or • Client did not pay any wages eligible for the ERC
Action to take	Your decision whether to pursue the issue to determine if additional credits can be claimed by filing amended payroll tax returns (see chart at end of worksheet for ERC requirements)	You should inquire further to determine whether the credits were totally missed or whether client did not pay any ERC wages (see chart at end of worksheet for ERC requirements)

Step 2 – Amend payroll tax returns, if necessary

If you determine that additional credits are available, calculate the eligible wages and credits using the charts at the end of this worksheet and coordinate with the client and their payroll provider to amend the necessary payroll tax returns (Forms 941X).

Complete Step 1 again using the charts in Step 2 and the amended payroll tax returns (skip this step if amended payroll tax returns are not required):

Step 3 – Income tax return reporting

The following income tax return adjustments must be made for the Employee Retention Credits that were claimed on payroll tax returns.

Credit	Federal income tax return adjustments/comments	California adjustments (California does not allow these credits)
Employee Retention Credit	• Deduction for wages paid must be reduced by ERC claimed (sum of Form 941, lines 11c and 13d); • No adjustment to gross income; • No adjustment to §199A wages*	• Back out the reduction for wages paid on the federal return due to the ERC
*The IRS has not provided guidance on this topic. Note, however, that §199A(b)(4)(A) states that wages for purposes of the qualified business income deduction are based on wages "paid." It does not say wages "deducted." This seems to indicate that even though deductible wages are reduced on the income tax return, the taxpayer can still include all wages paid for purposes of the §199A deduction.		

Employee Retention Credit Comparison Chart			
Issue	**CARES Act/TCDTRA (Q2–Q4 2020)**	**CARES Act/TCDTRA (Q1–Q2 2021)**	**ARPA (Q3–Q4 2021)**

Eligible employers	Trade or business experiencing: • A full or partial shutdown; or • Significant decline in gross receipts, which means a 50% decline in gross receipts from same calendar quarter in 2019 and continues through end of first quarter for which business's gross receipts are greater than 80% of comparable 2019 calendar quarter Nonprofits are eligible, but governmental entities are not Originally PPP loan recipients could not receive credit. This was changed retroactively by TCDTRA	Trade or business experiencing: • A full or partial shutdown; or • Significant decline in gross receipts, meaning a 20% decline in gross receipts compared to comparable 2019 calendar quarter. Taxpayers may elect to use prior calendar quarter rather than current calendar quarter to determine if there was a significant decline in gross receipts Governmental entities that are colleges or universities, or whose principal function is providing medical or hospital care are eligible for credit	Same as 2021 Q1 and Q2 criteria, plus: • Recovery startup businesses, which is any employer that began trade or business after February 15, 2020, with gross receipts of less than $1 million: • Credit only available in 2021 Q4 for recovery start-up businesses due to changes made by the Infrastructure Investment and Jobs Act.
Amount of credit	50% of qualified wages	70% of qualified wages	70% of qualified wages
Maximum amount of qualified wages/credit	$10,000 per employee for the year (credit capped at $5,000 per employee for the year)	$10,000 per employee per calendar quarter (credit capped at $7,000 per employee per quarter)	$10,000 per employee per calendar quarter (credit capped at $7,000 per employee per quarter)

(continued)

Employee Retention Credit Comparison Chart (continued)

Issue	CARES Act/TCDTRA (Q2–Q4 2020)	CARES Act/TCDTRA (Q1–Q2 2021)	ARPA (Q3–Q4 2021)
Qualified wages	Includes health plan expenses paid on behalf of employee if excluded from employee's gross income For small employers (defined as 100 or less full-time employees) qualified wages include wages paid to all employees For large employers (defined as more than 100 full-time employees), qualified wages limited to wages paid to employees who are not working Does not include wages paid: • For which FFCRA credits claimed; or • With PPP forgiven loans	Same as 2020 credit, except definition of "small employer" modified to apply to employers with 500 or fewer full-time employees	Same as 2021 Q1 and Q2 credit, however severely financially distressed employers may claim credit for wages paid to all employees even if the employer has more than 500 employees A severely financially distressed employer is any employer whose gross receipts declined more than 90% in a 2021 calendar quarter compared to same quarter in 2019 Credit only available in 2021 Q4 for recovery start-up businesses due to changes made by the Infrastructure Investment and Jobs Act.
Claiming credit	Claimed on Form 941 Employers may receive advance credit by: • Reducing payroll deposits; and/or • Claiming advance credit payment on Form 7200	Same as 2020 credit except that advance credit payments are limited to small eligible employers (500 or fewer full-time employees), and the amount of advance is limited to 70% of the average quarterly wages paid in calendar-year 2019	Same as 2021 Q1 and Q2 credits
Wage deduction	Wage deduction must be reduced by amount of credit claimed	Wage deduction must be reduced by amount of credit claimed	Wage deduction must be reduced by amount of credit claimed
Statute of limitations period to review credit claimed on return	Three years	Three years	Five years