

IMDA Members May Benefit from Expanded Eligibility for the Employee Retention Credit (ERC)

By Rob Kane, CPA, partner, Wipfli

What is the ERC?

The Employee Retention Credit (ERC) recently has been expanded for 2021, and organizations may be eligible for up to \$7,000, per employee, per quarter.

ERC is available for eligible wages and employer-paid health expenses from March 12, 2020, through September 30, 2021. The ERC wage limit is \$10,000 per employee for 2020 and \$10,000 per employee, per quarter for 2021, resulting in maximum credits of \$5,000 ($10,000 * 50\%$) per employee in 2020 and \$7,000 ($\$10,000 * 70\%$) per employee, per quarter, in 2021.

Why Now?

Expansions and revisions to ERC over the last 12 months have resulted in additional opportunities to claim the employee retention credit. If organizations have 500 or fewer full-time employees and have experienced a quarterly revenue decline of 20% or greater in 2020 or 2021, both as compared to the same quarter in 2019, the business may qualify for substantial ERC benefits.

Expanded Eligibility

When the ERC was first enacted in March 2020, businesses that received Paycheck Protection Program (PPP) funds were prohibited from claiming the credit. Because of this restriction, most companies wisely chose to apply for larger, forgivable PPP loans rather than claim the ERC. But in December 2020, the Consolidated Appropriations Act of 2021 (CAA) removed the PPP restriction. Companies that received PPP loans now are eligible to claim the ERC so long as the wages used to support PPP are not the same wages used to support ERC (“no double dipping”).

ERC has been expanded to larger employers with the maximum number of full-time employees increasing from 100 employees in 2020 to 500 employees for 2021.

The maximum credit has increased from \$5,000 annually (per employee) in 2020, to \$7,000 per employee, *per eligible quarter* in 2021.

Greater payroll and employer health plan expenses lead to increased benefits. Part-time employee wages count, too. That summer intern who was paid \$1,000 to cut grass could generate a credit of \$700!

How can IMDA members benefit from ERC?

The ERC is a refundable payroll tax credit for wages and employer health plan expense. To qualify for the credit, an employer must:

- Be subject to a partial or full suspension due to orders from an appropriate governmental authority limiting commerce, travel or group meetings due to COVID-19; or
- Have a significant decline in gross receipts for at least one calendar quarter. For 2020, the quarterly decline must exceed 50%; for 2021, the quarterly decline must exceed 20%, both as compared to the same quarter in 2019.

For example, if a company’s Q1 2019 revenues totaled \$5,000,000, Q1 2021 revenues would need to be \$4,000,000 or less to qualify. Sometimes, a record-breaking quarter in 2019 can be enough to result in ERC qualification.

In addition, all employers (including “large”) that are not otherwise eligible have an opportunity to claim ERC for wages (and employer-paid health expenses) paid to employees for not working.

Credits are claimed on Form 941 quarterly payroll tax forms. Although companies already have submitted those returns timely, companies are eligible to file amended forms for up to five years. But, don’t delay... the sooner the amended Form 941-X is filed, the sooner refunds are received – refunds that can be used to buy machines, hire employees or distribute to shareholders.

How does Wipfli help IMDA members with ERC?

Wipfli has performed thousands of ERC calculations, assisting manufacturers and other businesses across the US to optimize ERC while achieving 100% PPP loan forgiveness.

Wipfli's dedicated ERC team assists with:

- Identification and determination of wages and health benefits eligible for the credit
- Calculation of the potential credit
- Identification of best potential utilization of wages eligible for the credit, including the interplay between ERC and PPP allocable wages
- Compilation of a deliverable (Form 941X) to request refunds

As COVID-19 relief funds became available, Wipfli alerted two mid-sized manufacturing clients (sister companies) to ERC. Wipfli discussed with them how the companies had been impacted and analyzed financials to calculate that impact. While these manufacturers were themselves only minimally impacted by closures and quarantines, they were feeling the sting from closures up their supply chain.

A slowdown in materials had caused significant disruption to production schedules and delayed projects. That meant they were stretched thin and forced to lean on their line of credit to meet essential cash flow demands.

These sister companies, with approximately 87 full-time employees, qualified for over \$650,000 in tax credits for Q1 2021. They received their funds within two months of application.

Wipfli is having tremendous success identifying and maximizing ERC benefits. Contact Rob Kane, CPA, Partner at 608.270.2934 or rob.kane@wipfli.com with questions about the employee retention credit.



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