

Arkansas Business Navigator Podcast

Episode 8: Employee Retention Tax Credit: What Is It and Am I Eligible?



Kamelle

Hey, what's up, everybody? It's Kam here, and it's tax season. Today we're going to discuss the Employee Retention Tax Credit and answer some FAQs regarding this program and talk about how you can access it when you file this year. Additionally, we're going to highlight some events that are happening around our state.

[Intro Music]

Kamelle

The Employee Retention Tax Credit, or ERTC, or ERC, was created in 2021 to help businesses negatively impacted by the global Pandemic of 2020: Coronavirus. This enables employers to recover from losses occurred during the time of government interference of normal business operations. At the time, forced shutdowns were happening in the name of health and safety, and this had a resounding impact on the small businesses that greatly impact our economy. Per the IRS, the Employee Retention Credit is a refundable tax credit for businesses that continue to pay employees while shutdown due to the COVID-19 Pandemic, or had significant declines in gross receipts from March 13, 2020 to December 31, 2021. Eligible employers can claim the ERC on an original or adjusted employment tax return for a period within those dates.

Kamelle

So, what are the benefits? The tax credit is a maximum of \$5,000 per employee in the calendar year of 2020. For 2021, the maximum credit is

\$7,000 per quarter per employee for the first three quarters of the year only, and the fourth quarter wages do not qualify for the credit unless you are a recovery startup business. At maximum, the benefit could be worth up to \$26,500 per employee.

Kamelle

So, who's eligible? I bet you're asking. The credit is available to all employers regardless of size, including tax exempt organizations. There are only two exceptions state and local government employers and self-employed individuals and owner-operators. Employer qualification for the ERTC is determined by one of the following criteria and having gross annual income receipts that do not exceed \$1 million: have had their operations fully or partially suspended, or had a reduced business hours due to orders from a governmental authority, suffer a significant decline in quarterly gross revenue as measured against 2019. The benchmarks are, respectively, 50% for 2020 and 20% for 2021 compared to 2019.

Kamelle

I bet you're asking what is a recovery startup business? Per the American Rescue Plan Act, a business that opened its doors during the Pandemic can receive the credit. Your startup may be eligible if you meet the following criteria: you started your business on or after February 15, 2020, your annual gross receipts don't exceed \$1 million for the individual 2020 and 2021 tax years, you have one or more w-2 employees, not including owner operators or family members. For example, if you launched a food delivery business on April 1, 2020, with three employees and earned \$500,000 for the 2020 and 2021 tax years, then you are considered a recovery startup business and a perfect candidate for ERC. In addition, if you purchased an existing business that was in operation on before

February 15, 2020, you may or may not be considered a recovery startup business. It all depends on your unique circumstances. Since the rules around this particular eligibility requirement are complex, working with a tax expert can help you determine if you qualify.

Kamelle

Now, I bet you are wondering how do you get access to it? While you've likely already filed your taxes for 2020 and 2021, you can still claim the credit retroactively. To do so, fill out form 941-X from the IRS. Be prepared to calculate your total qualified wages and health insurance costs for each quarter. You will subtract that amount from your deposit on form 941.

Kamelle

Now I bet you are wondering who do you contact for assistance? As a business owner that has been operating for at least two years up to this point in time, you should already have relationships with at least three of these professionals that support your business. Number one SBDC small Business Consultant. Number two a legal attorney. Number three a CPA or tax attorney. You could contact your qualified or tax attorney and they are going to want to get paid for their services more than likely, so be prepared. If you can clearly discern your eligibility, I would self-evaluate fill out your 941 forms. Additionally, the IRS will be a go to source for information about this tax credit. You should visit IRS gov to get started.

Kamelle

I kind of alluded to this question earlier, but I want to reemphasize it and put a time limit on it as well. But the question will be what if I never applied for this credit during my 2020 and 2021 tax returns? You could file for both

retroactively. Though the time limit is approaching, you'll only have until April 15 of 2024 for 2020 ERTC claims and April 15 of 2025 for 2021 ERTC claims. You need to fill out an IRS Form 941 X or work with an expert.

Kamelle

Another question if I received PPP loans, does it automatically disqualify me from receiving ERTC? That is a common misconception. PPP borrowers are eligible for the ERTC as long as your company meets eligibility requirements. You can receive both the PPP and the ERTC both claims can be filed retroactively even if you missed the original filing deadline. Per the IRS, wages reported as payroll costs for the PPP loan forgiveness or certain other tax credits can't be claimed for the ERC in any tax periods, so there is no double dipping.

[Transition Music]

Kamelle

Next, let's pivot to some events that are happening in Arkansas. On Tuesday, February 21 at 10:00, a.m. Essential Digital Strategies for Small Businesses will be playing in Texarkana. In partnership with the Chamber of Commerce of Texarkana, Arkansas Business navigator wanted to bring Essential Digital Strategies for small Businesses to you to encourage forward thinking usage of the Facebook platform and help you develop profitable habits. We wanted to bring experts to you to help elevate your digital image and grow your business reach. The marketing team will be teaching best practices for Facebook marketing, what successful advertisement look like versus ineffective ads, where and how to prioritize marketing efforts on Facebook, and when and why you should pay for advertisement. Contact me at 501-671-1256 or via email at kgomez@uada.edu.

Kamelle

On Saturday, February 25, the East Arkansas Small Business Conference will be taking place at ASU Mid-South campus in the Marion Berry Renewable Energy center. This is an in-person event, but virtual options are available. Are you interested in starting a small business? Don't miss this opportunity to help your community create needed jobs by getting resources to help your small business grow and innovate. Providing small and emerging business owners with skills, tools, and contacts needed to build and grow their enterprises are the goals of the 2023 East Arkansas Small Business Development Conference. Topics will include how to finance your business effective use of social media how to hire and keep quality staff building strategic partnerships. Contact Kimberly Marshall at 501-563-6638 for more information.

(Transition Music)

Kamelle

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