

Surviving COVID 2021 - Maximizing Payroll Related Tax Credits and Preparing for PPP Round 2

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Agenda

- **Intro**
 - What has happened so far? What is to come?
 - What is a Refundable Payroll Tax Credit?
- **COVID Related Tax Credits**
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Intro – What Has Happened So Far...and What is to Come?

- FFCRA – Expired
- ER Social Security Tax Deferral – Expired
- Employee Social Security Tax Deferral – Expired
- 2020 Employee Retention Tax Credit – Expired
- PPP Round 1 – All Loans Issued
- 3 PPP Forgiveness Applications, including new form 3508S
- Employers have 10 months after end of Covered Period to Apply for Forgiveness
- SBA is starting to audit PPP Forgiveness Applications
- ***What is a Refundable Payroll Tax Credit?***



COVID Related Tax Credits - FFCRA

- Employers can now receive FFCRA tax credits in 2021 for FFCRA wages paid to employees in 2020/2021.
- Employers can also choose to voluntarily continue compliance with FFCRA through 3/31/2021.
- If you choose to voluntarily comply with FFCRA through 3/31/2021, FFCRA related tax credits only available for the original balance of paid time off required by FFCRA.
 - FFCRA Paid Leave Amounts
 - Up to 80 hours for Emergency Paid Sick Leave at 100% regular pay (or 2/3 regular pay if being used to care for a family member/take of child)
 - Additional 10 weeks of pay for extended FMLA, to take care of a child who's school is closed due to COVID

Employee Retention Tax Credit 2020

- **2020 ERTC was originally not available for anyone that took a PPP loan. Now, the rules to get the ERTC in 2020 are:**
 - 1) Your organization was forced to fully or partially suspend operations during any calendar quarter in 2020 because of governmental orders limiting commerce, travel, or group meetings due to COVID-19*, or
 - 2) You experienced a significant decline in gross receipts.
- **What is a significant decline in gross receipts?**
 - For 2020, according to the gross receipts test, the ERTC is available...
 - On the 1st day of the 1st calendar quarter of 2020
 - For which an employer's gross receipts are less than 50% of its gross receipts
 - For the same calendar quarter in 2019

**ERTC is available from date of suspended ops until date when full/partial suspension has ended.*

***ERTC is not available for wages paid prior to 3/13/2020*



Employee Retention Tax Credit 2020

- **Refundable Payroll Tax Credit on 50% of the 1st \$10,000 paid to any employee during eligibility period.**
- **Employers with 100+ Employees:**
 - ERTC only applies to qualified wages (including health care costs) paid to employees during periods of suspended operations (i.e. you can only claim the ERTC on the wages you paid people to not work), or qualified wages paid to employees due to decline in gross receipts.
 - These employers can only count wages up to the amount that the employee would have been paid for working an equivalent duration during the 30 days immediately preceding the period of economic hardship.
- **Employers with Less Than 100 Employees:**
 - ERTC applies to all qualified wages (including health care costs) paid during eligibility period, up to threshold.
- **No Double Dipping**
 - You cannot claim ERTC on payroll costs that were paid for by PPP loan, FFCRA or any other CARES Act related grant money you may have received.



Employee Retention Tax Credit 2021

- **COVID Relief Bill extends and expands ERTC for period from 1/1/21-6/30/21**
 - ERTC rate increased from 50% to 70% of qualified wages.
 - Lowers eligibility threshold by reducing year over year gross receipts decline from 50% to 20%.
 - Provides safe harbor for employers to use prior quarter gross receipts to determine eligibility.
 - Increases limit on per employee creditable wages from \$10,000 per year to \$10,000 per quarter.
 - *Net effect of this is a maximum ERTC of \$14,000 per employee in 2021.*
 - Increases 100 employee delineation for determining qualified wages to 500 employees for 2021.
 - Allows certain public instrumentalities, such as Universities, hospitals and medical care providers to participate.
 - Allows businesses with 500 or fewer employees to advance the credit at any point during the quarter based on wages paid in the same quarter in a previous year.
 - Provides rules to allow new employers who were not in existence for all or part of 2019 to be able to claim the credit.

PPP Round 2

- **PPP reopened for applications on Monday, January 11, 2021**
- **Now, all lenders can issue PPP loans**
- **PPP borrowers can select from any timeframe from 8-24 weeks for their covered period.**
- **PPP2 loans can be used for additional expenses, such as:**
 - Operations expenditures (including payroll processing and related fees and HR software license fees)
 - Property damage costs
 - Supplier costs, and
 - Worker protection expenditures
- **501c(6) organizations can participate**

PPP Round 2

- **Eligibility Rules for 2nd Draw PPP Loan:**
 - Previously received 1st Draw PPP loan and will or has used full authorized amount only for authorized uses;
 - Has no more than 300 employees; and
 - Can demonstrate at least a 25% reduction in gross receipts between comparable quarters in 2019 and 2020.**
- **Lenders are processing PPP loan applications more slowly**
- **Lenders are imposing their own rules on required documentation.**

Putting it All Together – Case Studies

- **Example 1:**

- A restaurant with 50 employees.
 - Took out a PPP1 Loan for \$400,000.
 - Experienced partial suspension of operations when indoor dining became prohibited during lockdown in Spring 2020.
 - Total payroll costs spent from first date of partial operations through 12/31/2020: \$1.75M
 - Already applied for PPP1 Loan Forgiveness. Forgiveness application indicates that 100% of PPP loan principal spent on payroll.
 - Experienced a 35% drop in gross receipts in Q4 2020 vs. Q4 2019.
 - Paid out \$23,000 in FFCRA wages in 2020
- 1) ERTC 2020 is available, but not on the \$400,000 of payroll costs paid for with PPP money or on the \$23,000 in FFCRA wages

Total ERTC available (assuming all employees earned at least \$7,500 after the PPP loan was fully used up):

50 employees x \$7,500 qualified wages per employee x 0.5 (ERTC 2020 credit factor) = \$187,500 in refundable payroll tax credits

2) ERTC 2021 is available for Q1 2021 only (we won't know if Q2 is an option until the end of Q1, at the earliest)



Putting it All Together – Case Studies

- Example 2:

- A restaurant with 50 employees.
- Took out a PPP1 Loan for \$400,000.
- Experienced partial suspension of operations when indoor dining became prohibited during lockdown in Spring 2020.
- Total payroll costs spent from first date of partial operations through 12/31/2020: \$1.75M
- Did not yet apply for PPP1 Loan Forgiveness.
- Experienced a 35% drop in gross receipts in Q4 2020 vs. Q4 2019.
- Paid out \$23,000 in FFCRA wages in 2020.

1) ERTC 2020 is available. It's possible that we could apply for PPP loan forgiveness such that some of the wages that otherwise would appear to have been paid with PPP money were not paid for with PPP money – by claiming instead that 40% of PPP money was spent on nonpayroll costs.

Total ERTC available (assuming all employees earned at least \$10,000 between date of suspended operations and 12/31/2020):

50 employees x \$10,000 qualified wages per employee x 0.5 (ERTC 2020 credit factor) = \$250,000 in refundable payroll tax credits

2) ERTC 2021 is available for Q1 2021 only (we won't know if Q2 is an option until the end of Q1, at the earliest)



Other COVID Related Tax Impacts

- **Qualified Disaster Relief Payments (IRC Section 139)**

QUESTION:

Some of our company's employees have suffered significant financial hardships due to the COVID-19 pandemic. Our company would like to offer those employees financial assistance, but we want to do it in the most tax-effective way. Can we provide disaster relief on a tax-advantaged basis to employees who are suffering COVID-19-related financial hardships?

ANSWER:

Individuals may exclude from their federal gross income any amount they receive as a "qualified disaster relief payment." Excludable payments include reimbursements or direct payments for reasonable and necessary personal, family, living, or funeral expenses or repair, rehabilitation, or replacement of an individual's personal residence or its contents on account of a qualified disaster. Payments are not excludable to the extent other compensation (e.g., insurance) covered the expenses.

The term "qualified disaster" includes any disaster determined by the President to warrant assistance under the Robert T. Stafford Disaster Relief and Emergency Act, and such a disaster was declared nationwide in connection with the COVID-19 pandemic. As a result, if your company makes qualified payments to employees in the U.S. who have incurred qualifying expenses due to the COVID-19 pandemic, those payments should not be subject to income tax withholding, FICA, or FUTA, and should not have to be reported on employees' W-2 forms.



Other COVID Related Tax Impacts

- **Work Opportunity Tax Credit (WOTC) program extended until 2025.**
- **Extension of the exclusion from employee income (for tax purposes) of student loan payments paid by the employer until 2025.**
- **Allows full deduction of expenses for food and beverages paid or incurred to a restaurant from 12/31/20-1/1/23. Previously this deduction was limited to 50% from 12/31/17-12/31/25 under the Tax Cut and Jobs Act.**

Checkmate's COVID Tax Credit Related Services

- **PPP Loan Support Service**
 - <http://in.checkmatepayroll.com/client-ppp-loan-support-service-setup-form>
- **ERTC 2020 Retro Tax Filing Service**
 - <http://in.checkmatepayroll.com/en/client-employee-retention-tax-credit-service>
- **ERTC 2021 Service**
 - <http://in.checkmatepayroll.com/en/client-employee-retention-tax-credit-service-2021>

Additional Info and Resources

- IRS FAQs Page on ERTC
 - <https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act>
- Checkmate blog: “We Hired a Remote Worker. How Can We Ensure a Smooth Onboarding Experience?”
 - <https://www.checkmatepayroll.com/we-hired-a-remote-worker-how-can-we-ensure-a-smooth-onboarding-experience/>
- Clean Air Curtain
 - <https://aircleanersinc.com/>



Questions?



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