



Employee Retention Credit FAQ

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This document is for general information purposes only. It is not, nor is it intended to constitute, legal or tax advice.

1. What is the Employee Retention Credit?

The Employee Retention Credit is a payroll tax credit that can be claimed by employers who retained and paid qualified wages to employees while also experiencing either of the following:

For Tax Year 2020 (Qualified wages paid after March 12, 2020, through Dec. 31, 2020)

- a) A full or partial suspension of operations due to an order from a governmental authority limiting travel, business and meetings during the quarter of payroll (not paid out of PPP funds); or
- b) A reduction in gross receipts of 50% or more during a calendar quarter compared to the same calendar quarter in 2019.

For Tax Year 2021 (Qualified wages paid Jan. 1, 2021, through June 30, 2021)

- a) A full or partial suspension of operations due to an order from a governmental authority limiting travel, business and meetings during the quarter of payroll (not paid out of PPP funds); or
- b) A reduction in gross receipts of 20% or more during a calendar quarter compared to the same calendar quarter **in 2019**. If you were not in business in 2019, then you may use the same quarter(s) in 2020 for comparison.

2. Are Churches and Synods Eligible for the Employee Retention Credit?

Yes. Section 2301 of the CARES Act allows an employee retention credit against applicable employment taxes for eligible employers, including tax-exempt organizations, that pay qualified wages, including certain health plan expenses.

3. For What Periods Can the Credit Be Claimed?

For 2020, the credit can be claimed for qualified wages paid after March 12, 2020, and before Jan. 1, 2021. For 2021, the credit can be claimed for qualified wages paid after Dec. 31, 2020, and before July 1, 2021.

4. How Can the Credit Be Claimed?

According to the IRS, the credit can be claimed by reporting the total qualified wages and related health insurance costs for each quarter on your employment tax returns (Form 941). To claim the credit for past quarters, a Form 941-X, "Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund," may need to be filed (to amend a previously filed Form 941).

The IRS further provides, in anticipation of claiming the credit, that employers can retain a corresponding amount of the employment taxes that otherwise would have been deposited, including (a) federal income tax withholding, (b) the employees' share of Social Security and Medicare taxes, and (c) the employer's share of Social Security and Medicare taxes for all employees, up to the amount of the credit, without penalty, taking into account any reduction for deposits in anticipation of the paid sick and family leave credit.

Source: [Employee Retention Credit | Internal Revenue Service \(irs.gov\)](https://www.irs.gov/retirement-plans/employee-retention-credit)

5. Did Something Change? Were We Always Eligible for the Employee Retention Credit?

The Employee Retention Credit was expanded and extended under the Consolidated Appropriations Act of 2021. This new legislation allows employers (including churches and synods) to take advantage of both the Employee Retention Credit and the Paycheck Protection Program (PPP).

Previously, if you took the PPP loan, you could not take the Employee Retention Credit. Now, you can take both, but you cannot take the credit for a period in which you are using or have used the PPP loan.

Example:

Congregation A accepts PPP loan funds and uses those funds to cover payroll in the first quarter of 2021. Congregation A cannot claim the Employee Retention Credit for that quarter. *The same wages cannot be used to qualify for PPP loan forgiveness and the Employee Retention Credit.*

If Congregation A chooses not to cover payroll using PPP loan funds for the second quarter of 2021, then the Employee Retention Credit can be claimed for the second quarter.