



Michigan Nonprofit Association

Navigating COVID-19: *Payroll Tax Deferral and the Employee Retention Credit*

June 5, 2020

Webinar Goals

- Provide information on the CARES Act's Employee Retention Tax Credit and Payroll Tax Deferral Programs
- Provide additional resources
- Gather feedback from nonprofits

Sarah Pinder
Engagement Director



DISCLAIMER:

- ✓ Our BEST understanding as of this moment in time
- ✓ Presenting guidance NOT legal or financial advice
- ✓ You should make all decisions after consulting your attorney and CPA.
- ✓ MNA staff are NOT lawyers or CPA's

Agenda

- What are the Employee Retention Credit and Employee Tax Deferral programs
- When do they apply
- How could they benefit my organization

MNA's Framework for Responding to COVID-19

- **Response (Immediate and Ongoing)**
 - Providing resources, gathering feedback
- **Relief (Next 3 to 6 months)**
 - Understanding and advocating for nonprofit needs
- **Recovery (Ongoing)**
 - Connecting nonprofits to or providing supports identified during relief phase
- **Reform (6 months and beyond)**
 - Advocating for legislative and regulatory changes

c^o.act

DETROIT



Insights³

Presenter: Bob Weins



Bob Weins, JD, CPA
Insights³



Leon LaBrecque, JD, CPA, CFP, CFA
Sequoia Financial Group



Jamie Lopiccolo, CPA, CGMA
Capocore Professional Advisors

Employee Retention Credit

- Focus on the “BIG PICTURE”
- Don’t worry about the “Annoying Details”
(that’s why you have accountants and payroll services)

Navigating the Covid-19 Programs

Employee Retention Credit	Payroll Tax Deferral	Paycheck Protection Program	EIDL/EEIG	Small Bus Debt Relief	MI Small Business Relief	Emergency Paid Sick Leave	Expanded FMLA	Expanded Unemploymt Insurance
Elective	Elective	Elective	Elective	Automatic	Closed	Mandatory	Mandatory	Mandatory

Navigating the Covid-19 Programs

Employee Retention Credit	Payroll Tax Deferral	Paycheck Protection Program	EIDL/EEIG	Small Bus Debt Relief	MI Small Business Relief	Emergency Paid Sick Leave	Expanded FMLA	Expanded Unemploymt Insurance
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- What is the Employee Retention Credit?
- How is it calculated?
- Who qualifies for the Employee Retention Credit?
- When does it apply?
- How does my organization get paid?

Employee Retention Credit – The BIG PICTURE

What is the Employee Retention Credit (ERC)?

- Reimbursement for 50% of the first \$10,000 of each employees qualified wages paid from March 13, 2020 through December 31, 2020
- Maximum Credit: \$5,000 per employee

Employee Retention Credit – The BIG PICTURE

Example of how is the ERC calculated?

Maximum Credit

50% of each employee's *qualified wages* up to \$10,000.

Employee	Qualified Wages	Credit
Employee A	\$5,000	\$2,500
Employee B	\$10,000	\$5,000
Employee C	\$15,000	\$5,000

Employee Retention Credit – The BIG PICTURE

Who qualifies for the Employee Retention Credit (ERC)?

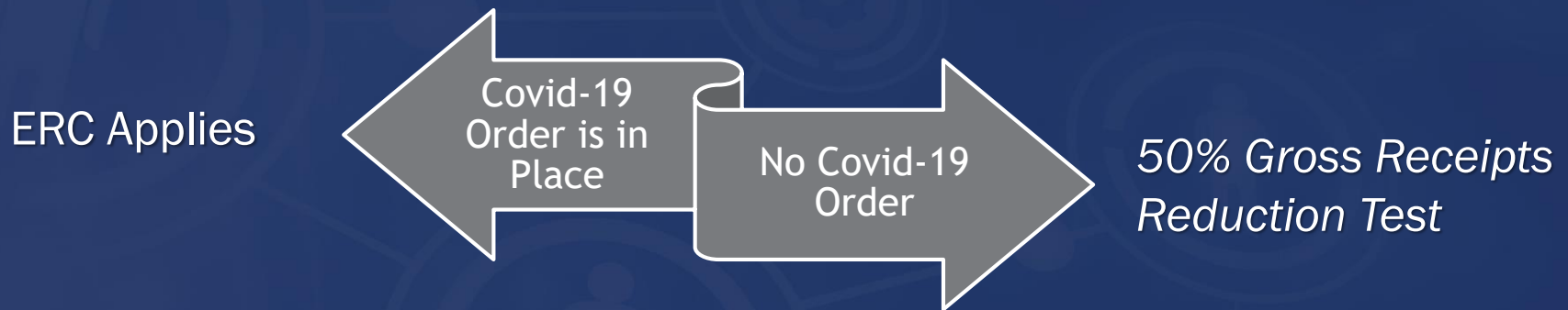
- Organizations operating in 2020
- Organization did not receive a PPP loan

Employee Retention Credit – The BIG PICTURE

When does the ERC apply?

Two Tests

1. Covid-19 governmental order requires you to fully or partially suspend operation.
2. 50% reduction in gross receipts (compared to same quarter in 2019)



Employee Retention Credit – The BIG PICTURE

How does my organization get paid?

- Credit against payroll tax deposits
- Advanced refund allowed if expected credits exceed remaining payroll tax deposits for the quarter

Employee Retention Credit

BIG PICTURE SUMMARY

- Credit Amount: 50% of employee *qualified wages* up to \$10,000
(Maximum credit is \$5,000 per employee)
- ERC applies when either:
 1. Covid-19 order is in effect that requires you to fully or partially suspend operations; or
 2. 50% reduction in gross receipts (compared to same quarter in 2019)
- ERC Payments come from credits against payroll tax deposits

Employee Retention Credit – Annoying Details

Now for the *Annoying Details*

Employee Retention Credit – Annoying Details

What is a *Covid-19 Order*?

- Government order limiting commerce, trade or group meetings due to Covid-19;

THAT REQUIRES THE EMPLOYER TO

- Fully or partially suspend its organization's operations

Employer can claim credit while the order is in force

Employee Retention Credit – Annoying Details

What is a Covid-19 Order?

- Government order limiting commerce, trade or group meetings due to Covid-19;

THAT REQUIRES THE EMPLOYER TO

- Fully or partially suspend its organization's operations

Example

Executive Order 2020-21 (“*Stay Home, Stay Safe*”) ordered non-essential businesses to close on March 24, 2020. The order was lifted on June 1, 2020.

Employer A was required to close from March 24 through June 1 due to Executive Order 2020-21.

Qualified wages paid by Employer A during this time period count towards the ERC.

Employee Retention Credit – Annoying Details

What is a partial suspension due to a *Covid-19 Order*?

Partial Suspension	Not a Partial Suspension
<p>Due to Covid-19 Order</p> <ul style="list-style-type: none">• Operating hours must be reduced;• Workplace must be closed for certain operations;• Suppliers unable to deliver critical goods/services.	<p>Due to Covid-19 Order</p> <ul style="list-style-type: none">• Organization is allowed to remain open but is losing revenue• Organization must close but employees can telework <p>NOTE: Employer may qualify for ERC under the <i>50% Gross Receipts Reduction Test</i></p>

Employee Retention Credit – Annoying Details

What is the 50% Gross Receipts Reduction Test?

BEGINS in First Quarter when...

2020 Gross Receipt
LESS THAN 50%
2019 Gross Receipts
(same quarter)



ENDS in Quarter after...

2020 Gross Receipt
MORE THAN 80%
2019 Gross Receipts
(same quarter)

Reduction does not need to be Covid-19 related

Employee Retention Credit – Annoying Details

Example: 50% Gross Receipts Reduction Test

STARTS: Quarter when Gross Receipt are less than 50% of same quarter in 2019

ENDS: Quarter *following* the quarter when Gross Receipt are greater than 80% of same quarter in 2019

2019	Q1	\$250,000		
	Q2	\$270,000		
	Q3	\$290,000		
	Q3	\$310,000		
2020	Q1	\$200,000	➔ 80%	
	Q2	\$130,000	➔ 48%	BEGINS - gross receipts less than 50%
	Q3	\$240,000	➔ 83%	- gross receipts more than 80%
	Q4	\$290,000	➔ 94%	ENDS - subsequent month

Employee Retention Credit – Annoying Details

Examples: Covid-19 *Stay at Home Order* is effective from March 24 – June 1, 2020

Scenario A	Q1	Q2	Q3	Q4
Covid-19 Order	Yes*	Yes*	No	No
2019	\$100,000	\$100,000	\$100,000	\$100,000
2020	\$90,000	\$40,000	\$45,000	\$110,000
Gross Receipts Reduction %	90%	40%	45%	110%
		Less than 50%	Not more than 80%	First quarter gross receipts exceed 80%

Scenario B	Q1	Q2	Q3	Q4
Covid-19 Order	Yes*	Yes*	No	No
2019	\$100,000	\$100,000	\$100,000	\$100,000
2020	\$90,000	\$40,000	\$85,000	\$110,000
Gross Receipts Reduction %	90%	40%	85%	110%
		Less than 50%	First quarter gross receipts exceed 80%	

* Covid-19 Order in effect for last 8 days of Q1 and first 2 months of Q2

Employee Retention Credit – Annoying Details

What are *qualified wages*?



Employee Retention Credit – Annoying Details

What are *qualified wages*?



Wages must be paid during:

- Time-period a Covid-19 Order is in place which requires the employer to fully or partially suspend operations; or,
- Quarter in which employer passes the 50% Gross Receipts Reduction Test

Employee Retention Credit – Annoying Details

What are *qualified wages*?



Wages must be paid during:

- Time-period a Covid-19 Order is in place which requires the employer to fully or partially suspend operations; or,
- Quarter in which employer passes the 50% Gross Receipts Reduction Test

Qualified Wages excludes compensation paid to:

- Employees exempt from SS and Medicare (e.g. ministers wages, parsonage allowances)
- Family relatives (e.g. children, siblings, parents, in-laws, nephews/nieces etc.)

Employee Retention Credit – Annoying Details

What are *qualified wages*?



Wages must be paid during:

- Time-period a Covid-19 Order is in place which requires the employer to fully or partially suspend operations; or,
- Quarter in which employer passes the 50% Gross Receipts Reduction Test

Qualified Wages excludes compensation paid to:

- Employees exempt from SS and Medicare (e.g. ministers wages, parsonage allowances)
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No Raises:

- Qualified Wage can't exceed what would have been paid for an equivalent time period during 30-days prior to the Covid-19 Order or 50% Gross Receipts Reduction Test

Employee Retention Credit – Annoying Details

Whose *qualified wages* count towards the ERC?

Average Number of Full-Time Employees in 2019* (Monthly)	
100 or fewer Ave. FT Employees	More than 100 Ave. FT Employees
All qualified wages paid qualify for ERC (pay for working AND non-working hours)	Qualified wages paid for <u>NOT</u> providing services (only pay for non-working hours)

* Full-Time is defined as an employee who averaged at least
30 hours/week or
130 hours/month

Employee Retention Credit – Annoying Details

Example

Employer reduces staff hours by 60% but continues to pay 100% of wages

Average Number of Full-Time Employees in 2019 (Monthly)	
100 or fewer Ave. FT Employees	More than 100 Ave. FT Employees
100% of wages paid count toward ERC	60% of wages count towards ERC as <u>NO</u> services were provided <ul style="list-style-type: none">▪ Telework hours count as “<i>providing services</i>”, ignore any reduction in productivity

Employee Retention Credit – Annoying Details

Example – cont'd

Employer reduces staff hours by 60% but continues to pay 100% of wages

		Qualified Wages	
Employees	Wages	100 or fewer	More than 100
Employee A	\$5,000	\$5,000	\$3,000
Employee B	\$10,000	\$10,000	\$6,000
Employee C	\$15,000	\$10,000	\$9,000

Employee Retention Credit – Annoying Details

What health plan costs can be included in *qualified wages*?

Health Plan Costs	
100 or fewer Ave. FT Employees	More than 100 Ave. FT Employees
<ul style="list-style-type: none">All health plan costs included	<ul style="list-style-type: none">Portion of health plan costs attributable to time employees are NOT providing services; PLUSAll furloughed (laid-off) employee health plan costs.

Health Plan Costs

- Include: Employer contributions to health plan, HRA or health FSA
- Exclude: Employer contributions to HSAs, Archer MSAs or QSEHRAs

Employee Retention Credit – Annoying Details

Example

Organization reduces staff hours by 60% but continues to pay 100% of wages.

			Health Plan Costs	
Employees	Status	Ave Em'r Cost	100 or fewer	More than 100
Employee A	60%	\$500	\$500	\$300
Employee B	60%	\$500	\$500	\$300
Employee C	60%	\$500	\$500	\$300
Employee D	Furloughed	\$500	\$500	\$500

Employee Retention Credit – Annoying Details

EXAMPLE

Organization reduces employee hours by 60% but continues to pay 100% of wages and health plan costs.

				>= 100 FTEs	More than 100 Ave. FT Employees		
Employees	Paid for No Service	[A] Wages	[B] Ave Health Plan Costs	[A] + [B] Qualified Wages*	[C] (60% X [A]) Wages	[D] (60% X [B]) Health Plan	[C] + [D] Qualified Wages*
Employee A	60%	\$5,000	\$500	\$5,500	\$3,000	\$300	\$3,300
Employee B	60%	\$10,000	\$500	\$10,000	\$6,000	\$300	\$6,300
Employee C	60%	\$15,000	\$500	\$10,000	\$9,000	\$300	\$9,300
Employee D	Furloughed	\$0	\$500	\$500	\$0	\$500	\$500
				Qualified Wages			Qualified Wages
				\$26,000			\$19,400
				Employee Retention Credit (50%)			\$9,700

* Maximum "Qualified Wages" is \$10,000

Employee Retention Credit – Annoying Details

No “*Double Dipping*”

- ERC not available if you participate in PPP
- Exclude the following from *qualified wages*:
 - FFCRA Sick and Family Leave comp
 - Work Opportunity Tax Credit employees
 - Section 45S paid family and medical leave
- ERC credits are not taxable income therefore...
can't deduct wages reimbursed under the ERC

Employee Retention Credit – Annoying Details

Specialty scenarios we are going to ignore

... but your accountant shouldn't

- Qualified wages for employees without fixed work schedules
(Can apply FFCRA rule of average hours worked in prior 6-months)
- Aggregation Rules for suspension of business, 50% Gross Receipts Reduction Test, PPP loan

Employee Retention Credit SUMMARY

- Credit Amount: 50% of *qualified wages* up to \$10,000/employee
 - 100 or fewer employees (2019): *All qualified wages count*
 - >100 employees (2019): *qualified wages for NOT working*
- ERC applies when:
 - Covid-19 order that fully or partially suspends operations
 - 50% Gross Receipts Reduction Test
- Payments come from credits against payroll tax deposits

Navigating the Covid-19 Programs

Employee Retention Credit	Payroll Tax Deferral	Paycheck Protection Program	EIDL/EEIG	Small Bus Debt Relief	MI Small Business Relief	Emergency Paid Sick Leave	Expanded FMLA	Expanded Unemploymt Insurance
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Payroll Tax Deferral

- Employers can elect to postpone payment of:
 - Employer's portion of Social Security and Medicare taxes
 - On wages paid from March 27, 2020 through end of year
- Deferred taxes are payable over next two years:
 - Half by December 31, 2021
 - Half by December 31, 2022
- No interest on timely paid deferred payroll taxes but ...
BIG penalties if you are late!

Payroll Tax Deferral

- ~~Payroll Tax Deferral not available to employers that have a forgiven PPP loan~~
- ~~Can defer payroll taxes until date lender informs employer that PPP loan is forgiven.~~
- ~~Previously deferred payroll taxes continue to receive deferral.~~

UPDATE

Under the CARES Act revisions passed June 3rd employers who have a PPP loan can defer payroll taxes

**Congratulations,
You made it through this webinar!**

Don't worry if your mind is “swimming” ...
focus on the BIG PICTURE.*

Questions?

*Plus, you have the weekend to mentally recover 😊

MNA Resources specific to COVID-19 Response

- [MNAonline.org](https://mnaonline.org)- Special COVID-19 section
- Sign-up for e-newsletters
- Contact MNA staff
- Calendar with events
- Future tele-town halls and webinars

Connect on Social Media

@MNAonline



Join LinkedIn group: Leading Nonprofits Through COVID-19

Thank You!

Please provide feedback
via online survey after the event
to help inform future webinars.

Send additional feedback to
spinder@mnaonline.org.