

EMPLOYEE RETENTION CREDIT (ERC) PROVIDES BENEFITS FOR MANUFACTURING EMPLOYERS

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For manufacturers who experienced a suspension in operations or decline in business compared to 2019 due to the COVID-19 crisis, the Employee Retention Credit (ERC) may be a welcome relief. Under the CARES Act, the ERC offers a significant credit back for qualified wages, just for keeping employees on the payroll. This and other government relief programs have helped manufacturers survive this economic downturn with many facilities closed due to government orders.

WHO QUALIFIES?

Eligible manufacturers must meet one of the following criteria:

1. Have operations fully or partially suspended;
 - If government authorities impose restrictions on operations limiting commerce, travel, or group meetings;
 - Can include facilities with multiple locations with varying closure guidelines.
2. Experience a significant decline in gross receipts during a calendar quarter;
 - If an employer's gross receipts are less than 50% of its gross receipts for the same calendar quarter in 2019;
 - Gross receipts include any income from investments and incidental or outside sources.

The credit is available to all employers regardless of size, including tax-exempt organizations.

QUALIFIED WAGES

Eligible, qualified wages include all compensation paid by an eligible employer, including health plan expenses paid during the credit period.



The credit period is dependent on the eligibility test the employer must meet to qualify as an eligible employer. If the employer qualifies under the full or partial suspended operations test, the credit period will be the period of time the employer has operations suspended. If the employer qualifies under the significant decline test, the credit period starts with the first calendar quarter in 2020 with gross receipts less than 50% of the same calendar quarter in 2019. It ends on the last day of the first calendar quarter with gross receipts being 80% or more of the gross receipts of the same calendar quarter in 2019. The credit period cannot begin earlier than March 13, 2020, and must end by December 31, 2020.

Qualified wages and health care costs are defined differently, depending on the size of the employer.

100 or less employees:

- All qualified wages paid to employees during the determined period (including health care costs).

More than 100 employees:

- Qualified wages paid to employees for the time the employee DID NOT work due to economic hardship as a result of COVID-19 (does not include PTO or vacation time earned under the existing compensation structure);
- Plus, healthcare costs prorated to the time the employee did not provide services to the company.

HOW MUCH IS IT WORTH?

The credit is computed at a rate of 50% of qualified wages and health care costs paid up to a maximum of \$10,000 of costs. This results in a maximum credit of \$5,000 per eligible employee. Beginning with the 2nd quarter, manufacturers can get immediate access to the credit by reducing employment tax deposits that are otherwise required.

Case Study: *Employer with more than 100 employees*

An employee works only two days but is paid their normal schedule (5 days).

$\$20/\text{hr} \times 40 \text{ hours} = \$800 \text{ weekly wages} + \$200 \text{ health care benefits (weekly)} = \$1,000 \text{ total weekly cost paid by the employer.}$

The Company is receiving benefits for 40% of the time paid (2 days/5 days) and is not receiving services for 60% of the wages paid, so the employer can claim a credit on 60% of the wages and health costs paid. With a weekly cost of \$1,000 between wages and health care multiplied by 60%, the total equals \$600 in costs that qualify for the credit. \$600 multiplied by the credit rate of 50% results in a credit of \$300. If we apply this same scenario to the entire year with the same assumptions with a weekly payroll, the 2nd quarter would have 13 pay periods multiplied by the \$300 credit, resulting in a total 2nd quarter credit of \$3,900. The credit would max out in the 3rd quarter after four weeks resulting in a capped 3rd quarter credit of \$1,100. In this case, the max credit is reached in 17 weeks.

Assuming a total of 100 employees at the same rate, the calculations would result in:

Total = \$500,000 credit

CONSIDERATIONS

- Manufacturers who have applied for and accepted a PPP loan do not qualify for the ERC (unless the PPP was returned by May 18, 2020).
- Affiliation and aggregation rules do apply to ERC. Each employer must apply the aggregation rules of IRC 414(m) and (o), as well as IRC section 52(a) or (b).
- The ERC can be claimed with other programs such as the Main Street Loan Programs, Medical Leave Credit, and others.

GET THE CREDIT

KROST can help calculate qualified wages and determine benefits for manufacturers. We have come up with a detailed computation for reporting and tracking qualified wages (salary and hourly), healthcare costs, furloughed wages, and other costs. To estimate benefits, try KROST's PPP Budgeting and Forgiveness Maximization Tool. Manufacturers must report qualified wages on [IRS Form 941](#) to obtain credits. Qualified employers can request an advance of the credit by submitting [IRS Form 7200](#). ■

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