



2021 TAX PLANNING FOR TECH COMPANIES: EMPLOYEE RETENTION AND R&D CREDITS

Guest Contributor: Mike Kniss

Manager - Research & Development Tax Credit Services



In 2021, technology companies have a unique opportunity to claim both R&D Tax Credits for qualified research and Employee Retention Tax Credits (ERTC) for maintaining employees during the pandemic, with one key exception. As part of 2021 tax planning, tech companies looking to claim these valuable credits should consider how the benefits are calculated, as both are wage-based federal incentives.

The ERTC was first introduced as part of the Coronavirus Aid Relief and Economic Security (CARES) Act in 2020 to incentivize employers to keep employees on payroll during the pandemic. The enactment of the Consolidated Appropriations Act (CAA) provided clarity on the interplay of R&D Tax Credits, ERTC, and Paycheck Protection Program (PPP) loans. Fortunately, the CAA clarified that PPP loan expenses do not impact federal R&D Tax Credit claims. However, while ERTC can be claimed in conjunction with R&D Tax Credits, any wages used in calculating the ERTC must be excluded from the R&D credit claim.

It is never too early to begin year-end planning for the current tax year. Being proactive will ensure benefits are maximized by claiming all applicable incentives. It is crucial that taxpayers revisit their eligibility for ERTC, as the credit was modified and extended through the end of the year as part of the CAA and the American Rescue Plan Act (ARPA).

2021 UPDATES

- 1. The ERTC was extended from its initial end date of January 1, 2021, to January 1, 2022.** As such, eligible taxpayers can take advantage of this benefit for an additional year.
- 2. Qualification is easier for 2021 under the gross receipts test.** For 2020, taxpayers must have experienced a 50% decline in any quarter compared to the same quarter in 2019. In 2021, taxpayers can qualify with a 20% decline in gross receipts compared to the same quarter in 2019. For taxpayers that did not experience these declines, they can still qualify under the government-mandated shutdown rules.
- 3. Credit amounts were also increased.** In 2020, taxpayers can qualify 50% of the first \$10,000 in wages and qualified healthcare costs for the year, bringing the total creditable amount for the year to \$5,000 per employee. In 2021, that amount increases to 70% of the first \$10,000 per quarter for a maximum amount of \$28,000 per employee.

ASSESS ELIGIBILITY FOR R&D TAX CREDITS AND ERTC

Companies in the technology sector that experienced supply shortages or experienced sharp declines in gross receipts should explore the ERTC to see if they are eligible for this refundable credit. The ERTC, coupled with the R&D tax credit, can create an influx of capital, helping navigate many taxpayers out of the pandemic. Technology companies who have not assessed eligibility for R&D Tax Credits and ERTC should do so immediately. ■

"While ERTC can be claimed in conjunction with R&D Tax Credits, any wages used in calculating the ERTC must be excluded from the R&D credit claim."

[LEARN MORE ►](#)