

How Significant Could the ERC be for Contractors?



Many contractors aren't aware of just how significant the Employee Retention Credit (the ERC) can be, or they may be concerned that there will be a great deal of work involved to take advantage of it. However, unlike the Paycheck Protection Program which grabbed much of the pandemic relief spotlight and was ultimately fraught with complexity and shifting requirements, the ERC is a fairly straightforward tax credit that does not require overly complicated paperwork or calculations. Additionally, since many contractors were impacted by shutdown orders during the early days of the COVID crisis, there is a significant chance that many will qualify for this credit.

A few important notes about the ERC:

- **You can qualify for the ERC for 2020 or 2021, even if you have a PPP loan.** While the original ERC rules dictated by the CARES Act prevented a company from taking advantage of both programs, last December's legislation amended this ruling. There is some interplay between the two programs to be aware of, and your tax professional can provide more guidance.
- **The ERC is different than the payroll tax deferral authorized under the CARES Act.** There has been some confusion about whether the ERC is the same as the Social Security payroll tax deferral opportunity that received some attention last year. They are different programs; the ERC is a tax credit, while the payroll tax deferral was essentially an interest free loan designed to free up much-needed short-term cash for struggling businesses.
- **When determining whether a decline in gross receipts will qualify for the ERC, you will use 2019 as your basis of comparison – whether you are evaluating 2020 or 2021.** Because 2019 was the last full year not impacted by the pandemic, it offers the most reasonable way to determine how significantly your business was impacted in 2020 or 2021.

ERC Client Examples



Below are a few examples of contractors we have recently helped take advantage of the ERC. We encourage you to reach out to learn more about how your business can potentially benefit from this tax credit. Contact your Kreischer Miller relationship professional or any member of our Tax Strategies team at kmiller@kmco.com or 215.441.4600.

General construction contractor with 125 employees

- The company experienced a 20 percent reduction in Q4 2020 gross receipts compared to Q4 2019.
- This allowed Q1 2021 to qualify for the ERC under the new look-back provision, resulting in an **expected credit of \$800,000 for Q1 2021**.
- The company is also anticipating a 20 percent reduction in Q1 2021 gross receipts compared to Q1 2019. If this is the case, it would be **eligible for an additional \$800,000 credit for Q2 2021**.

Specialty contractor with 400 employees and received a first round PPP loan

- Many of the company's Pennsylvania worksites were mandated to be shut down from March 22, 2020 through May 1, 2020. Half of the workforce on these jobsites was furloughed but the company continued to pay for its employees' health insurance. Health insurance costs are considered qualified wages for the credit.
- This is considered a partial shut-down for the purposes of the ERC.
- The company was **eligible for a \$100,000 credit in 2020**.

General Contractor with 30 employees and received a first round PPP loan

- The company experienced a 50 percent decline in gross receipts in Q3 2020.
- This allowed Q3 and Q4 2020 to qualify for the ERC.
- The business received a PPP loan in early May, and the original 24 week covered period was set to end in mid-Q4.
- We evaluated the interplay between the ERC and the PPP Loan Forgiveness to maximize both programs.
- Under the new rules, the contractor was able to select a covered period of less than 24 weeks, ending just before the start of Q4. This allowed Q4 wages to be dedicated to the ERC credit.
- The result was a maximum **ERC credit of \$150,000 in 2020 and the business was able to obtain full forgiveness on its PPP loan**.