



Western North Carolina Conference

The United Methodist Church

COVID-19, CARES Act – IRS Tax Credits (Employee Retention Credit) – 2021 CAA Update

Follow Jesus, Make Disciples, Transform The World

As previously announced, the Coronavirus Aid, Relief and Economic Security Act (CARES Act) passed in March 2020 contained an incentive that encourages employers to retain—rather than terminate—employees despite current economic constraints due to COVID-19.

The recently passed Consolidated Appropriations Act, 2021 (CAA) extended the ERC into the first two calendar quarters of tax year 2021 and made significant changes, including increasing the credit amount and making it available to more employers. The ERC available for the first two calendar quarters of 2021 is summarized below, with key changes compared to the 2020 credit in **bold and underlined**. *Unless otherwise noted, the changes discussed below apply only to calculating credits for the first two calendar quarters of 2021.*

Expanded Eligibility

The ERC is available to large and small churches (and tax-exempt organizations generally) **for the first two calendar quarters of 2021** if they have either:

- Suffered a decline in gross receipts of more than **20%** when comparing either (i) the applicable calendar quarter of 2021 to the same quarter in 2019 **or (ii) the calendar quarter immediately preceding the applicable calendar quarter of 2021 to the same quarter in 2019**,
or
- Had to fully or partially suspend operations “due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings (for commercial, social, religious, or other purposes)

due to the coronavirus disease.”

A United Methodist local church would likely be eligible for this credit if it was subject to an order limiting group meetings. However, if a church-related organization does not rely on group meetings for its operations and is able to continue operating in a way that is comparable to its operations prior to an applicable closure order by requiring its employees to telework, it would *not* be eligible for the ERC on that basis and would **instead** need to show a decline in gross receipts of more than 20%.

Under the CARES Act, employers that received a Paycheck Protection Program (PPP) loan were prohibited from claiming the ERC in 2020 (unless such loan was repaid by May 18, 2020). Under the CAA, however, **employers that received a PPP loan are no longer prohibited from claiming the ERC**. In addition to being eligible to claim the credit available for the first two calendar quarters of 2021, the CAA also **allows these employers to claim the ERC retroactively for 2020 wages paid after March 12, 2020**, *excluding any wages paid with the proceeds of a forgiven PPP loan*. The IRS is expected to release additional guidance regarding how to claim this retroactive credit for 2020 wages.

Calculating the Tax Credit

Applicable wages are capped at \$10,000 per employee **per calendar quarter**. Credit can be taken for **70%** of the wages paid, meaning a maximum credit of **\$7,000** per employee is available to eligible employers per calendar quarter, for a total of **\$14,000 in 2021**.

Applying for the ERC

The easiest way to take the ERC is still via the employer's [*IRS Form 941*](#) (Employer's Quarterly Federal Tax Return) by reducing the employment taxes the employer would otherwise deposit. The IRS has amended *Form 941* to include lines for ERC-qualified wages and health plan expenses on lines 21 and 22, respectively.

If an employer can claim a credit that exceeds the amount of employment taxes it was due to deposit with *Form 941*, the employer can request a “refund” of the difference by filing [*IRS Form 7200*](#).

Alternatively, the employer can request a refund of the overpayment when it

files Form 941.

IMPORTANT: In 2020, the IRS stated that wages paid (including any designated housing allowance) to clergy employees of a church do not qualify for the ERC. This has not changed for 2021.

UMC Example 1

A qualifying local church has a non-clergy employee that was paid an annual salary of \$40,000 (i.e., \$10,000 per calendar quarter) in 2020. The church should have received an ERC of \$5,000 (the maximum for the year) for that employee for 2020. The employee will be paid the same annual salary in 2021. Assuming the church meets the applicable eligibility requirements in 2021, it could anticipate receiving a total of \$14,000 in ERC for the first two quarters of 2021.

UMC Example 2

Assume the same facts as Example 1, except the local church received a PPP loan on July 1, 2020. The church exhausted the loan proceeds in paying for all eligible employee costs it incurred in the third quarter of 2020—no loan proceeds were remaining to pay for eligible costs in the last quarter of 2020. The church then applied for forgiveness of its PPP loan, which was granted. Because the PPP loan was not used for the \$10,000 paid to the employee in the last quarter of 2020, the church would still be able to receive an ERC of \$5,000 for that employee for 2020, as well as the \$14,000 credit for the first two quarters of 2021.

As noted above, **employers that received a PPP loan are no longer prohibited from claiming the ERC.**

ADDITIONAL RESOURCES FROM WESPATH AND GENERAL COUNCIL ON FINANCE & ADMINISTRATION

Paycheck Protection Program (PPP)

- [PPP Summary](#)
- [PPP Q&A](#)

Families First Coronavirus Response Act (FFCRA)

- [FFCRA Summary](#)

- [FFCRA Q&A](#)

More Information Related to COVID-19

- [General Council on Finance and Administration](#)
- [Wespath Benefits and Investments](#)

The information above should not be considered legal or tax advice. Plan participants, annual conferences, local churches, or other employers or parties affiliated with The United Methodist Church (UMC) should consult with counsel and other advisors in considering the application of the coronavirus-related laws and guidance to their circumstances.