CARES Act

Employment-Related Tax Credits and Employment Tax Delays

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CARES ACT

Summary of Relevant Provisions for Advisors and their clients that work with SEI

On March 27, 2020, President Donald Trump signed into law a $2 trillion stimulus package titled the Coronavirus Aid, Relief and Economic Security Act (CARES Act). The CARES Act is intended to lessen the impact of COVID-19 on the economy, public health, state and local governments, individuals, and businesses, by providing various forms of emergency relief. The CARES Act is the third relief package in response to COVID-19 and the largest package in American history. The CARES Act covers a broad range of stimulus measures including:

- tax recovery rebates of up to $1200 per individual and an additional $500 per child, subject to limits;
- temporary expansion of unemployment benefits;
- changes to the rules governing employee benefit plans and IRAs, business income, losses and charitable contributions;
- various loan programs and grants for small businesses;
- employment-related tax credits and tax deferrals; and
- loans, grants and other forms of assistance to distressed industries.

This summary focuses on the relevant parts of the CARES Act that we believe are of interest to Advisors and their clients that work with SEI.

EMPLOYMENT-RELATED TAX CREDITS AND EMPLOYMENT TAX DELAYS

The CARES Act provides a generous employee retention tax credit and permits employers to postpone the payment of certain employment taxes. You should consult with a tax professional to understand how you may be able to utilize these credits and delays.

Who is eligible for the employee retention tax credit?

Only “eligible employers” can claim the tax credit. Eligible employers include any employer operating in 2020:

- that completely or partially suspends operations due to an order from a governmental authority limiting commerce, travel, or group meetings due to COVID-19, or
- that has gross receipts in any quarter that are less than 50% of gross receipts for the same quarter in 2019 (and has gross receipts in any subsequent quarters that are 80% or less than for the same quarter in 2019).

Can an employer that receives a loan under the PPP get an employee retention tax credit?

No. Employers cannot get both a PPP loan and an employee retention tax credit.

How much is the tax credit?

The tax credit is equal to 50% of "qualified wages," and can be up to $5,000 per employee.

For employers with 100 or fewer full-time employees, qualified wages are equal to the wages paid to the employer's employees, plus the health plan costs of those employees, during the period that the employer is an eligible employer.

For an employer with more than 100 full-time employees, qualified wages include only those amounts paid to employees who are not providing services due to the event that causes the employer to be an eligible employer, and the health care costs allocable to those wages. For example, qualified wages would include the amounts paid to an employee who is not providing services due to a partial shutdown as a result of a state or local order.

It there a limit on the wages that can be counted for purposes of the employee retention tax credit?

Yes. Only $10,000 in wages per employee can be taken into account for purposes of the credit.

Also, qualified wages do not include any wages taken into account for purposes of certain other tax credits, including the paid leave tax credit under the Families First Coronavirus Response Act.

How do eligible employers claim the credit?

The tax credit is generally claimed on Form 941. Employers that are entitled to a tax credit can obtain the credit by retaining employment taxes that they would otherwise deposit with the Treasury Department. The employment taxes that can be retained are the employer's share of social security and Medicare taxes, the employee's share of social security and Medicare taxes, and employee income tax withholding.

If retained employment taxes are not enough to fund the credit that an employer is entitled to receive, the employer can apply for an advance payment of the tax credit using Form 7200.

What employment taxes have been postponed?

The CARES Act permits employers to defer payment of the employer share of social security tax (6.2% of wages) through December 31, 2020. Half of the deferred payments must be paid by December 31, 2021, and the remaining half are due by December 31, 2022. This provision is effective now.

However, employers that receive a loan under the PPP may not defer payments of the employer's share of social security tax that are due on or after the date that the PPP loan is forgiven.

Independent Advisor Solutions by SEI, a strategic business unit of SEI Investments Company (SEI).

For additional information regarding the CARES Act, please visit https://www.congress.gov/bill/116th-congress/house-bill/748/text

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