



Paychex PEO COVID-19 Quarter-End Reporting Third Quarter 2021

The American Rescue Plan Act of 2021 signed by the President on March 11, 2021 extended many provisions from previously enacted stimulus legislation. These provisions apply to the tax credits available under the Families First Response Act (FFCRA) and Coronavirus Aid, Relief, and Economic Security Act (CARES Act). These changes are outlined under each topic in this section.

Employee Retention Tax Credit (ERTC) under the CARES Act

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) is designed to encourage Eligible Employers to keep employees on their payroll, despite experiencing economic hardship related to COVID-19, with an ERTC.

Changes as a result of the American Rescue Plan Act:

- Extended through **December 31, 2021**.
- The maximum amount of qualified wages for each employee is \$10,000 **each calendar quarter** for all four quarters of 2021, for qualified wages paid in 2021.
- The maximum credit for qualified wages paid to any employee is **\$7,000 per quarter** for all four quarters of 2021, for qualified wages paid in 2021.
- For wages claimed starting on July 1, 2021, the refundable and non-refundable portions of the credit will now be claimed against Medicare taxes rather than Social Security taxes. **This change doesn't change the amount of the credit.**

- For more information about how the ERTC can help your business, go to [Employee Retention Tax Credit Extended to End of 2021 by American Rescue Plan Act](#).

The ERTC and Paycheck Protection Plan (PPP) Loan

Under the Consolidated Appropriations Act 2021 employers who received the PPP loan can claim the ERTC as well. Employers can retroactively claim this credit in 2020 as well. In order to claim the credit for past quarters, employers will need to file Form 941-X, Adjusted Employer's Quarterly Federal Tax Return or Claim for Refund, for the applicable quarter(s) in which the qualified wages were paid.

Keep in mind that the same wages cannot be used to claim the ERTC and apply for forgiveness for a PPP loan.

Application of the ERTC

The credit is allowed against the employer portion of social security taxes under section 3111(a) of the Internal Revenue Code (the "Code"), the credits are fully refundable because the Eligible Employer may get a refund if the amount of the credit is more than certain federal employment taxes the Eligible Employer owes.

Note: Starting July 1, 2021, the ERTC will be applied to Medicare taxes.

Important: The IRS has specific guidelines about identifying full-time employees employed during 2019 according to the [Determining Qualified Wages on their FAQ site](#).

Employers can report the ERTC on Form 941 in 2021.

For additional information about Employee Retention Credits, go to the IRS website FAQs: [Employee Retention Credit under the CARES Act](#).

How is Paychex Handling the ERTC?

Paychex updated our software to include earnings codes that automatically take 70% of the wages entered and apply this amount to the credit up to \$10,000 in wages for each employee **per quarter**. The credit is calculated at 70% of the eligible wages, up to a maximum of \$7,000 per employee per quarter.

By reporting amounts through the earnings codes set up, we'll calculate the credit and reduce clients federal tax liability. Any excess amount will be carried over and applied as a credit to the next payroll. Any excess credit at the end of the quarter will be marked for a refund on Form 941.

ERTC for Recovery Startup Businesses

You must meet the following requirements to be considered a Recovery Startup Business.

An employer who:

1. Began carrying on any trade or business after **February 15, 2020**.
2. Average annual gross receipts do **not exceed \$1,000,000, and**.
3. Is not otherwise eligible due to a full or partial suspension of operations or a decline in gross receipts.

If you meet these requirements, the total amount of ERTC you are eligible for is **\$50,000 per quarter**.

You should review these requirements with your CPA or tax advisor.

If you determine you're eligible for the credit:	You need to:
You haven't yet taken advantage of the ERTC for the third quarter.	Contact your payroll service representative to report that you're eligible for ERTC because you're a Recovery Startup Business; you can report these tax credits retroactively to July 1, 2021.
You are taking advantage of the tax credit; however, you haven't let Paychex know that you're eligible for the ERTC because you're a Recovery Startup Business.	Contact your payroll service representative to report that you're eligible for ERTC because you're a Recovery Startup Business.

Reporting ERTC to Paychex

It's important that you report this information to Paychex so that we can accurately complete your Forms 941.

For additional information about how Paychex is handling the Employee Retention Credit, go to [Customer Support during COVID-19/Employee Retention Credit](#).

FFCRA

The federal mandate to provide employee leave under FFCRA expired on December 31, 2020, but if covered employers decide to provide employee paid leave **voluntarily** under this framework, employers could be eligible to take the tax credits until September 30, 2021.

The American Rescue Plan Act signed into law on March 11, 2021, provides the following updates to available payroll tax credits under FFCRA:

- Leave tax credits and **voluntary** provision of leaves under the FFCRA framework extended through **September 30, 2021**.
- For credits employers claim starting on July 1, 2021, the refundable and non-refundable portions of the credit will now be claimed against Medicare taxes rather than Social Security taxes. **This change doesn't change the amount of the credit.**
- The 10-day/80-hour limit for paid sick leave was reset as of **April 1, 2021**. Employees cannot carry over unused hours that were not used before April 1, 2021.

For more information on FFCRA, go to [Tax Credits for Paid Leave Extended by the American Rescue Plan Act](#).

Reporting FFCRA to Paychex

It's important that you report this information to Paychex so that we can accurately complete your Forms 941.

FFCRA, ERTC, and Form 7200

If you elected to receive a COVID-19 tax credit, Paychex will apply the amount of the credits to your federal tax liability each time you process payroll, which in most cases is the quickest way to access the credit.

If you choose to file one or more Forms 7200 (Advance Payment of Employer Credits Due to COVID-19) instead of electing to have Paychex apply the credits to your federal tax liability, you must provide Paychex with this information as soon as possible so we can report this information on your 2021 Forms 941.

Form 7200

If you plan on filing Form 7200, go to the [Form 7200 Explanation Guide](#) for additional information on how COVID-19 wages must be reported on both Form 7200 and Form 941.

Employer Social Security Tax Deferral Information

On June 3, 2020, the PPP Flexibility Act was passed. As part of this Act, if you received a PPP Loan, you could defer deposit and payment of your share of social security tax through December 31, 2020, whether or not your loan was forgiven. Previously, you could only defer deposit and payment of this tax until your PPP loan was forgiven.

As a reminder, the amount of deposit and payment of your share of social security that was deferred will be due as follows: 50% due by December 31, 2021, and the remaining 50% due by December 31, 2022 or as otherwise set forth in the FFCRA/CARES Act tax credits and deferrals addendum to the service agreement between you and Paychex.

941 Return

We'll complete the updated 2021 Form 941 based on the information you've reported to Paychex, including:

- Qualified wages for qualified sick leave and family leave wages
- Qualified health plan expenses on qualified sick and family leave wages
- Qualified wages for the ERTC
- Qualified health plan expenses on wages reported for the employee retention credit
- Employer social security tax you've deferred
- Advances received from filing Forms(s) 7200

Important: – We'll report this information based on what you've reported to Paychex, including any advances you've received from filing Form(s) 7200. The 941 has been expanded to accommodate additional reporting for COVID-19 related wages and employer tax credits. Schedule B for semi-weekly schedule depositors has also been revised.

Work Opportunity Tax Credit

- Work Opportunity Tax Credit (WOTC) (section 51 of the Internal Revenue Code): No wages used for WOTC are eligible for COVID-19 tax credits

Additional Resources

As we receive additional guidance from the IRS about these topics, we'll update the following resources

- [Customer Support during COVID-19](#)
- [Coronavirus \(COVID-19\) Help Center](#)

The content contained within this document reflects the most current information at the time of its release and is subject to change.

State Resources

In response to the COVID-19 pandemic, state and local governments continue to issue new and modify existing executive orders, laws and regulations. At the same time, the federal, state and local governments are providing additional guidance to help keep people safe and coordinate re-opening efforts.

We realize the challenges this represents and want to help you navigate these regulations. We've created a [COVID-19 Resources by State](#) webpage with details on your state's response, plus other valuable information such as:

- Return to Work
- Leave regulations
- Links to additional resources (state labor agencies, state COVID-19 pages)

State IDs and Social Security Numbers (SSNs)

With many states reducing staff during COVID-19, paper return processing has slowed down or temporarily halted. As a result, it's more important than ever to make sure you've reported the following information for your business so Paychex can electronically file your returns.

- all state and local agency IDs
- all employee Social Security Numbers (SSNs) – many states won't accept quarterly state unemployment insurance (SUI) statements with SSNs