HOUSE COMMITTEE ON WAYS & MEANS
CHAIRMAN RICHARD E. NEAL

The Enhanced Employee Retention Tax Credit: Protecting Jobs, Incomes, and Benefits

The Employee Retention Tax Credit (ERTC) is a proven tool that encourages employers to keep employees on payroll, allowing an additional **60 million** American workers to maintain critical lifelines and remain connected to their jobs, paychecks, and benefits during the COVID-19 crisis. Of those workers who will benefit from the more robust employee retention tax credit, **40 million** are employees of small and mid-sized businesses. Preventing layoffs and keeping employees tied to their employers has the added benefit of providing relief to states' overwhelmed unemployment programs. The Heroes Act also provides an additional lifeline to entrepreneurs and small and mid-sized businesses by helping them make rent and weather the effects of the pandemic on their income. Enhancements to the ERTC in the Heroes Act strengthen this tool and helps more Americans maintain their income *and* their ties to their employers throughout these difficult, uncertain times.

How does the enhanced employee retention tax credit work?

Protects jobs by helping employers afford to keep employees on payroll:

The ERTC is a refundable payroll tax credit for wages paid by an employer whose business is either fully or partially suspended due to a COVID-19 related order or is experiencing at least a 10 percent decline in gross receipts compared to the same calendar quarter of the previous year. For businesses who have experienced a 50 percent or greater decline in gross receipts, the credit is 80 percent of wages paid up to the maximum.

Eligible employers with 1,500 or fewer full-time employees may claim the credit on all wages paid to their employees. All other eligible employers may claim the credit only for wages paid to employees who are furloughed or for the time the employees are not working.

Quickly and efficiently provides support:

Eligible employers receive immediate and certain relief without an application process and without being subject to a limited pool of funding. The credit is applied against quarterly payroll tax liability and is refundable, so employers can get the credit even if they have little tax liability. Employers can immediately reduce deposits from payroll taxes and income tax withholding and can file for an advance credit as soon as they incur expenses.

How big is the enhanced employee retention tax credit?

The credit covers up to **80 percent** of qualified wages paid by the employer – an annualized $60,000 in wages or health care expenses per employee, providing the largest benefit to low- and middle-income worker.

Does the enhanced credit help tipped employees?

Yes, it allows employers to pay employees additional amounts to make up for lost tips.

What about furloughed workers?

The credit incentivizes employers to provide health insurance to furloughed workers because those expenses can be considered qualified wages for purposes of determining the credit.

When is an employer eligible for the ERTC?

Eligibility starts at 10 percent revenue loss and phases in so that the credit reaches its max for businesses that have experienced a revenue decline of 50 percent or more. Additionally, a business that is subject to a closure order is automatically eligible for the credit during the time period of the order.

Can struggling state and local governments claim the enhanced credit?

Yes, state and local governments can claim the credit in the event they are paying wages to employees while their operations are fully or partially shut down.

Are employers who receive a PPP loan eligible?

Yes, employers who receive a PPP loan can also claim the enhanced ERTC. However, employers cannot "double dip" and receive PPP forgiveness on payroll costs on which they have already claimed the ERTC.

How many employers and employees does the enhanced ERTC reach?

According to estimates provided by the Joint Committee on Taxation, the ERTC reaches **60 million employees and over 6 million businesses**. Over two-thirds of the employees work for businesses with under 1,500 full time equivalent employees, and almost 90 percent of the credit dollars go to these small and mid-size businesses.

Firm Employment Size	Number of Entities	Number of Employees (Millions)	Number of Employees for whom credit is claimed (Millions)	Credits Claimed (Millions of Dollars)
Total	6,110,706	167	59	212,176
0-4	3,496,917	7	3	11,352
5-9	1,087,032	7	3	11,972
10-19	707,734	10	4	16,295
20-99	654,128	26	11	48,334
100-499	133,660	27	11	53,888
500-1499	21,325	17	8	46,176
1500+	9910	73	17	24,159

Source: Internal Revenue Service Data, JCT Staff Calculations

Are there other tax credits in the Heroes Act that will help employers afford to keep employees on payroll?

Yes. The legislation provides a corresponding credit for rent, utilities, and mortgage costs. Using the same, proven mechanism as the ERTC, the fixed expenses credit provides a **50 percent credit** on up to $50,000 in rent, utility, and mortgage costs per quarter. The expenses that can be claimed are limited to 25 percent of payroll costs, or 6.25 percent (annualized 25 percent) of last year's gross receipts.

Eligible employers are those with 1,500 employees or fewer, or employers with $41.5 million or less in gross receipts. This credit is meant to provide liquidity for small and mid-size businesses who struggle most with meeting these expenses, and who may not have a large employee base on which to claim the ERTC.

Like the ERTC, which has already been implemented by the IRS, this credit is taken by employers against payroll taxes and is advanceable.

Is there a similar credit in the Heroes Act for self-employed individuals?

Yes. Gig economy workers and other self-employed individuals are often left behind in proposals that only focus on payroll, though they are a critical part of our economy.

To fill this policy gap, the legislation includes a refundable income tax credit for self-employed individuals who have seen a hit to their income. They are able to receive a credit for up to **90 percent** of the lost gross income from self-employment compared to 2019, multiplied by the share of such income that were net earnings to them in 2019. The credit is phased out for individuals who do not have a corresponding drop in overall adjusted gross income compared to 2019 and for individuals making above $60,000 (joint filers above $120,000).