



Help Small-Business Customers Access a Little-Known Tax Credit

small business industry update

Summary: Helping business clients of every size is at the core of CFIs and their missions. CFIs have a little-known tool that can help their SMB clients: the employee retention credit (ERC). We break down what this refundable tax credit is, who may qualify, and how it can help your customers.

In this year's Oscar winner for Best Picture, "Everything Everywhere All at Once," the Wang family faces more than just a chaotic multiverse. They're potentially on the hook with the IRS for back taxes, and desperately scrambling to submit everything from karaoke machine receipts to pads of paper listing out what they thought were tax-deductible business expenses. The laundromat owners aren't the only small business struggling to make sense of their taxes, which makes their plight all the more relatable to stressed small-business owners this tax season.

It's no secret that the pandemic was hard on small- and medium-sized businesses (SMBs). A [2022 survey from the Federal Reserve](#) showed that an impressive 85% of SMBs had money problems in 2021, a 19% jump from 2019.

Government-financed help has mostly run out, and lenders are pickier about writing loans as both interest rates and economic uncertainty increase. SMBs that need funds for essential operating expenses (rather than growth) may find that borrowing the cash is a challenge, especially in a world of growing inflation, supply-chain problems, a fluctuating labor force, and worries about a possible recession.

Helping business clients of every size is at the core of community financial institutions' (CFIs) missions. Right now, CFIs have a little-known tool that can help their SMB clients: the employee retention credit (ERC). Only about [4% of SMBs consider themselves knowledgeable about the ERC](#), according to a survey done by the National Federation of Independent Business.

Helpful Tax Credit for SMBs

Created through the CARES Act, [the ERC is a refundable tax credit against](#) employment taxes. About [70% of qualified wages](#) (up to \$10K per employee, per quarter) during a defined period from 2020 to 2021 are eligible for the credit. The credits provided to the businesses are a maximum of \$7K per employee per quarter. SMBs can qualify even if they received PPP loans during the pandemic.

At the end of 2021, the ERC expired — but businesses can retroactively claim reimbursements for just over 3Ys past the end of the program. To do this, they would need to submit amended tax returns. Businesses have until April 15, 2024 to file amended returns for Q2, Q3, and Q4 of 2020, and until April 15, 2025 to file amended returns for all of 2021.

Determining Who Qualifies

Like any IRS offering, the ERC has fine print. The credit and qualifications have been amended several times

since 2020’s Coronavirus Aid, Relief, and Economic Security Act (CARES Act). Luckily, the IRS has detailed those changes in [a comparison chart between 2020 and 2021 qualifications](#).

Here are some general eligibility guidelines that have stayed consistent:

- Businesses must have experienced fully or partially suspended operations due to COVID-19.
- There must be a noted decline of at least 20% in gross receipts YoY from the same quarter in 2019.
- The credit is not available to certain governmental employers.
- The business must have had some portion of employees being paid, but not providing services during the eligible time period.

How to Help SMBs Take Advantage

Unfortunately, the ERC also has fluctuating rules around a complicated, prolonged verification process, which is often a lot for an SMB to handle while also performing the tasks that help them stay in business. Making your SMB customers aware of the ERC is one way you can help these business clients. Another way is to help them apply for the credit, acting as their advocate and guide through the complex bureaucratic process. A legitimate ERC provider, one that employs accredited experts, can also help SMBs steer through the process of applying for this tax credit. A CFI can do some of the work by vetting one or more ERC providers and then recommending the vetted choices to its SMB customers.

If alerting SMB clients to the ERC credit and then helping them access that credit appeals to you, there’s no time like the present. Because the opportunity is good only through April 2024 or 2025, this is a good time for CFIs to help SMB customers get the full amounts to which they may be entitled. Three key actions your institution can take:

1. Educate your SMB clients on the benefits of the employee retention credit (ERC).
2. Help them apply for the ERC and guide them through the process.
3. Vet ERC providers and connect them to SMBs for expert assistance.

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ECONOMY & RATES

| Rates As Of: 03/24/2023 07:08AM (GMT-0700) | | | |
|--|--------|---------|---------|
| Treasury | Yields | MTD Chg | YTD Chg |
| 3M | 4.73 | -0.15 | 0.31 |
| 6M | 4.80 | -0.37 | 0.04 |
| 1Y | 4.10 | -0.90 | -0.60 |
| 2Y | 3.58 | -1.24 | -0.85 |
| 5Y | 3.28 | -0.90 | -0.72 |
| 10Y | 3.32 | -0.61 | -0.56 |
| 30Y | 3.62 | -0.29 | -0.34 |

| FF Market | FF Disc | IORR |
|------------------|----------------|-------------|
| 4.58 | 5.00 | 4.90 |
| SOFR | Prime | QIBR |
| 4.80 | 8.00 | 4.57 |

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