

Tax Notes

IRS Releases Guidance on Advance Refunds of Employee Retention Credit

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The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), enacted on March 27, 2020, contains provisions related to taxation of employee benefits, compensation and wages, including employee retention credits. The IRS has now released guidance on how employers can receive the employee retention credit. This article addresses that guidance.

Our prior article discussed in detail both the employee retention credit and payroll tax deferral in detail [here](#). It noted that the maximum credit available for an eligible employer is \$5,000 per employee.

The IRS has announced that while the employee retention credit can be claimed on a taxpayer's quarterly employment tax return (Form 941 or similar), taxpayers can file a Form 7200 (Advance Payment of Employer Credits Due to COVID-19) to receive an advanced credit any time before 30 days after the end of a quarter (i.e., before the due date of the taxpayer's quarterly employment tax return, which is 30 days after the end of a quarter).

Significantly, [Form 7200](#) can be filed as many times as a taxpayer would like over the course of a quarter.

An Example

For example, assume an employer paid an employee \$8,000 in qualified wages in one two-week period during which it qualified for the employee retention credit. In this pay period the employer would not have hit its cap (\$10,000) in qualified wages relating to this employee. It thus would not yet have reached the maximum credit available (\$5,000). The employer could file a Form 7200 for the \$4,000 of credit for which it was eligible.

If in the next two-week period, the employer again paid the employee \$8,000 in qualified wages, it could then file another Form 7200, this time for the \$1,000 in credit still available after the second pay period.

For both pay periods, the credit is refundable to the extent it exceeds payroll taxes paid. Thus, the employer could use the refund from the first pay period to partially fund the qualified wages paid in the second pay period.

Employers will need to reconcile advance credit payments and reduced deposits on their quarterly employment tax return.

Form 7200 instructions can be found [here](#). The IRS has also issued extensive FAQs which is available [here](#).

Contact Us

PKF O'Connor Davies is monitoring the situation regarding the CARES Act. If you have any questions regarding the payroll tax provisions, specifically the payroll tax deferral and the employee retention credits, contact:

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