



5 Reasons Nonprofit Organizations Should Apply Now for the Employee Retention Credit





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By **Jay Woods**

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As the COVID-19 pandemic ramped up, thousands of businesses underwent mandated shutdowns and the resulting financial impact, so the U.S. government passed legislation authorizing billions of dollars in economic relief to employers. The [Employee Retention Credit \(ERC\)](#) was one of the government tax incentives passed to encourage eligible employers to continue paying employees and keep their businesses running during the economic fallout of the coronavirus.

What many don't realize is that this financial aid was intended for any employers with employees — including tax-exempt nonprofit organizations, like private hospitals, museums, churches, private schools, universities and credit unions.

Unfortunately, many nonprofit organizations that qualify for these potentially valuable payroll tax credits didn't claim them against their 2020 and 2021 payroll taxes. The good news is that the funds are still available. Here are five reasons your nonprofit should apply now for the Employee Retention Credit .

1. Most Nonprofits Will Qualify

To qualify for the ERC, a nonprofit must meet one of the following:

- ▶ The organization was completely or temporarily shut down or had to reduce hours due to a government order
- ▶ The employer saw a significant decrease in gross receipts in 2020 or 2021 when compared to 2019 gross receipts
- ▶ The organization is a recovery startup, operational in the third and fourth quarters of 2021.

2. Your Nonprofit Could Receive up to \$26,000 Per Employee

When first introduced as part of the Coronavirus Aid, Relief and Economic Security (CARES) Act in 2020, the maximum credit allowable under the ERC was \$5,000 per employee. With its renewal and expansion last year under the Coronavirus Response and Consolidated Appropriations Act, the maximum credit increased an additional \$21,000.

3. It's Retroactive

Though last year's Infrastructure Investment and Jobs Act moved up the ERC's expiration date, effectively repealing the program for the fourth quarter of 2021, nonprofit organizations are still allowed to submit their payroll tax filings for the covered periods. Employers who filed their payroll taxes in 2020 were able to deduct the money directly from their quarterly payroll taxes at that time. Those that didn't file in 2020 or are claiming the ERC for the first time on their payroll taxes in 2021 — or retroactively for 2020 — will be refunded for quarterly filed periods.

4. It's a Cash Refund

The ERC is a federal credit taken on a business' quarterly payroll taxes, not the business' taxes, based on how many full-time employees (30-plus hours) the company had for the eligibility period. The credit calculation is based on qualified wages paid per employee each quarter. In 2020 the refundable tax credit was 50% of qualified wages up to a \$5,000 maximum. In 2021 it was 70% of qualified wages up to \$21,000. The IRS issues a refund check in the amount of the credit claimed.

5. It's Easier Than You Think

If a nonprofit organization meets the eligibility requirements for the ERC, the credit can be claimed by filing amended payroll tax returns via [Form 941-X \(pdf\)](#) for the qualifying quarters and submitting them to the IRS. This retroactive filing option is good for three years from the date of filing or until the program runs out of money.

ERC specialists working for accounting companies, in accounting departments and for tax preparers can quickly evaluate whether a nonprofit organization is entitled to the credit and provide any needed guidance.

In addition to the ERC, the federal government has introduced other credits designed to help nonprofit businesses weather the long-term effects of the pandemic and to encourage both innovation and the employment of American workers. Employers should talk with their tax preparers about additional credits available to them including the [Research & Development \(R&D\) tax credit](#), available to nonprofit companies developing new or improved business components.

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Jay Woods
[Author's page](#)

Jay Woods is the founder and president of [Omega Accounting Solutions](#) where he is responsible for the company's business development and strategic planning. With 20 years of experience in financial management, business leadership and corporate strategy, Jay's focus is on building long-term strategic partnerships with clients and helping business owners access a full-functioning accounting department. To relieve businesses from the devastation of the pandemic, he added a tax incentives solution center as part of Omega's mission to help businesses not only survive but thrive.

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