



▶ **Tax Webinar**

Understanding Business Tax Credits Eligibility and Benefits

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Meet the **Speakers!**



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Scope



Demystifying Tax Credits

Breaking down the complex language of tax laws to help you grasp the essence of tax credits.



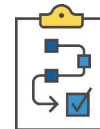
Quantifying the Benefits

Demonstrating the real-world impact of these credits, both in terms of financial savings and the broader advantages they bring to businesses.



Eligibility Criteria

Guiding you through the nuances of eligibility, ensuring that you can confidently identify which tax credits your business may qualify for.



Navigating the Process

Offering insights into the process of claiming tax credits, including documentation, deadlines, and best practices.

Research Credit

to whom it applies
and how to claim it



Qualifications for the Credit

The Four-Part Test

01.

Technological uncertainty.

The taxpayer encounters uncertainty regarding whether it can or how it should develop the component, or regarding the component's appropriate design.

02.

Qualified Purpose.

The purpose of the activity is to improve the functionality, performance, reliability, or quality of a product, process, software, technique, invention or formula that is intended to be used in the taxpayer's business or held for sale, lease or license (component).

03.

Process of experimentation.

The taxpayer encounters uncertainty regarding whether it can or how it should develop the component, or regarding the component's appropriate design.

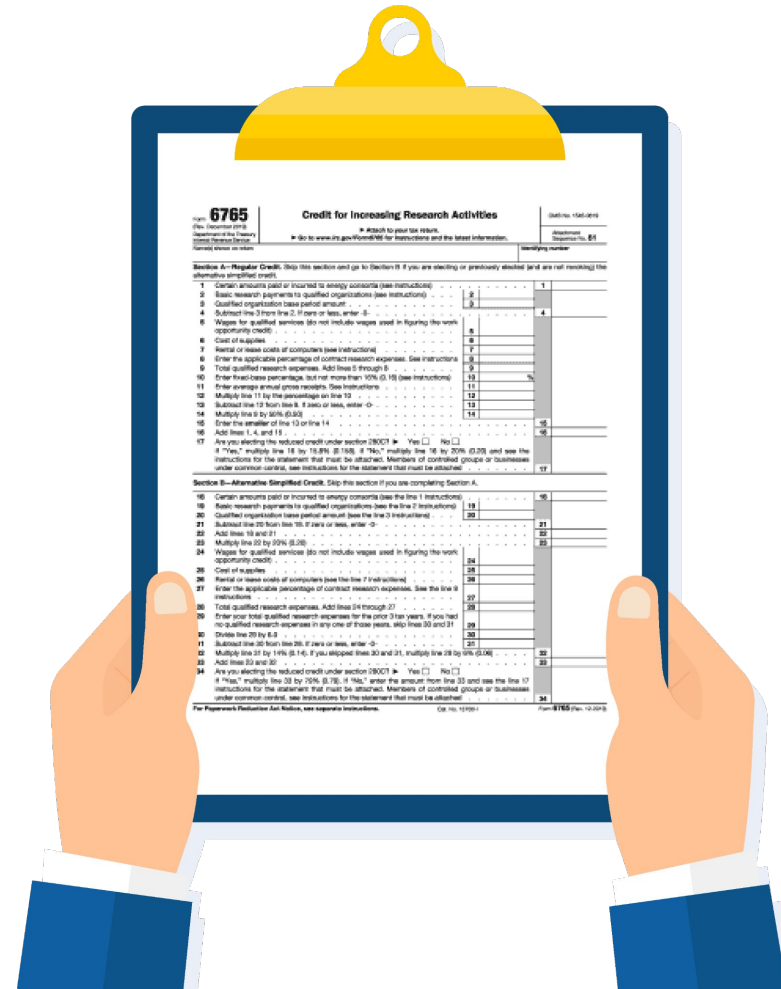
04.

Technological in nature.

The success or failure of the evaluative process is determined by the principles of engineering, physics, chemistry, biology, computer science, or similar natural or "hard" science, as opposed to principles of, e.g., economics, social sciences generally.

How to Apply for the Tax Credits

The credit itself is calculated using **Form 6765**, Credit for Increasing Research Activities.



R&D Credit Calculation



R&D Credit Calculation

Employee Wages



Qualified research expenses includes wages for employees who perform or directly supervise or support the research activity.

Cost of Supplies



used or consumed during the development process. Please note that capital items or general administrative supplies are not included.

Payments for Contractors or Non-employees



who performed qualified research activities on behalf of the company are also included on the qualified expenses.

Cost of Cloud Service providers and Rental or Lease of Computers



used in qualified activities are included on the calculation.

The following activities are **not considered qualified** activities for the purpose of claiming the research credit under **IRC section 41**. These activities includes:

- Research conducted after the beginning of commercial production
- Research related to adaptation of an existing business component to a particular customer's requirement
- Duplication of an existing business component
- Surveys or studies
- Research with respect to certain internally developed software
- Research conducted outside of the United States, Puerto Rico, or a U.S. possession
- Research in the social sciences, arts, or humanities
- Research funded by another person or governmental entity

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Regular Credit Method

Under this method, the credit is 20% of the company's current year qualified research expenses over a base amount.

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Alternative Simplified Credit Method

This method for calculating the research credit involves a four-step process.

First, figure out the company's average Qualified Research Expenses (QREs) for the past three years.

Next, multiply that average to 50%. Then, you need to subtract the result from the company's current year QREs and multiply to 14%.

Average Qualified Research Expenses



Multiply the average to 50%.



Subtract the result from the company's current year QREs and multiply to 14%.

How & Where you can apply the credit

The credit is a dollar for dollar offset against federal income tax liability. Businesses can carry forward the unused credits for up to 20 years after first carrying them back for one year.

Small businesses that do not have sufficient income tax liability to benefit from the research credit, can use the credit as an offset to the employer's Social Security tax liability, up to \$250,000 in 2022.

In 2023 and beyond, there is an additional offset of \$250,000 of the employer's Medicare Liability - that means total offset up to \$500,000.

Typical Errors

1. Lack of supporting documentation
2. Informal documentation process
3. Lack of clarity



Work Opportunity Credit

The Work Opportunity Tax Credit is a federal tax credit program created to encourage companies to recruit people from particular target groups who frequently experience job difficulties. Businesses can obtain tax credits that directly lower their federal income tax liability or Social Security tax owed by hiring qualified employees between January 1, 2018 and December 31, 2020. However, The Consolidated Appropriation Act of 2021, authorized the extension of the WOTC for employees hired until December 31, 2025. It is important to note that Work Opportunity Tax Credit does not apply to rehired employees, and if an employee is related to the employer or to owners of the employer/business. This program intends to enhance work opportunities and encourage economic participation for a number of underprivileged populations.

Requirements to Qualify

- ✔ Employee Eligibility
- ✔ Work Certification
- ✔ Hiring Period
- ✔ Minimum Employment Period

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Employee Eligibility

- A Recipient Of Temporary Assistance For Needy Families (TANF)
- Qualified Veteran
- Qualified Ex-Felon
- Designated Community Resident
- Vocational Rehabilitation Referral
- Summer Youth Employee
- Qualified Supplemental Nutrition Assistance Program Benefits Recipient
- Supplemental Security Income (Ssi) Recipient
- Long-Term Family Assistance Recipient
- Qualified Long-Term Unemployment Recipient

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Work Certification

- ✓ Form 8850
- ✓ Pre-Screening Notice and Certification Request for the Work Opportunity Credit

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Hiring Period

The calculation of qualified wages will consider the day the individual begins work for the employer.

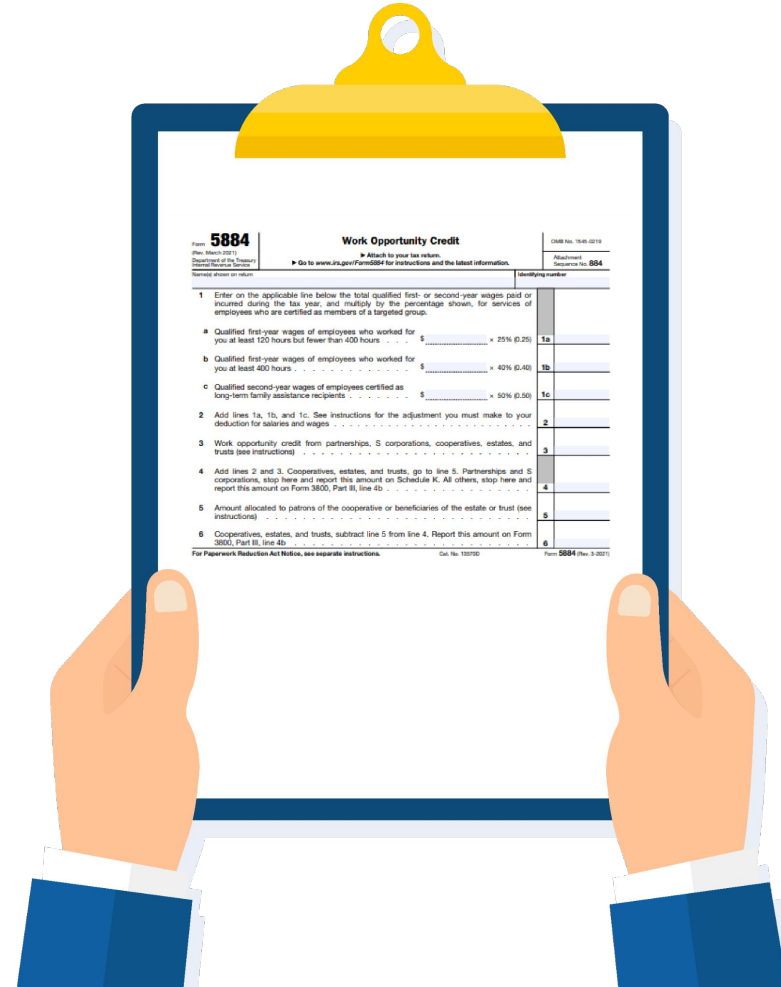
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Minimum Employment Period

Typically, in order for a business to be eligible for the credit, employees must put in at least 120 hours of work within their first year of employment.

How to Apply for Tax Credits

The credit itself is calculated using **Form 5884** - Work Opportunity Credit. This is part of the general business credit and if you claim the credit, the credit amount is subtracted from the deduction of wages.



Calculation

If the employee worked for at least 120 hours but less than 400 hours, the employer can receive 25% of the employee's wage worth of tax credit.

But if the employee worked for at least 400 hours, the employer can receive 40% of the employee's wage worth of tax credit. However, the credit is subject to limitation.

For Long-Term Unemployed Individuals, SNAP and Temporary Assistance for Needy Families Benefits Recipients, SSI Recipients, Ex-Felons, Designated Community Residents, and Vocational Rehabilitation Referrals, the maximum work opportunity credit you can claim per qualified employee is \$2,400;

For Summer Youth program participants, ages 16-17 who are employed between May-Sep 15 and live in a designated community area, the maximum credit is \$1,200;

For Long-Term Family Assistance recipients who are members of a family that has received Temporary Assistance for Needy Families benefits for at least 18 consecutive months, the limits is \$9,000;

For Veterans with a service-connected disability and have been employed for at least 6 months in the past year, the credit is up to \$9,600 and for Other veteran target groups, the credit is ranging from \$2,400 to \$5,600.

Work Opportunity Tax Credit

The credit can be used against income tax liability. For any unused credit, the business can carry unused WOTC back one year and then forward for 20 years. For qualified tax-exempt organizations, they may claim a credit for qualified veterans and the credit can be used on their Social Security taxes.

Below are the common mistakes that we should avoid when requesting for the credit.

1. Missing Deadlines: Within 28 days of the eligible employee's start date, the WOTC application must be submitted. The credit may be lost if the submission is made too late.

2. Forms that are incorrectly filled out or missing information: Make sure that all necessary forms, including Forms 8850, are correctly filled out and submitted to the appropriate State Workforce Agency. Also, it is important to confirm the employee's information to the supporting documents, like birth certificate, military discharge papers, or records of receiving SSI assistance. Delays or rejections may result from any mistakes or omissions.

3. Lack of Documentation: Keep comprehensive records to back up your WOTC claims. This contains copies of employment credentials, applications for jobs, and evidence of target group eligibility. In addition, records that support the credit must be kept for 3 years from the date any income tax return claiming the credit is due or filed, whichever is later.

What is ERC?



The employee retention tax credit (ERTC), also known as the employee retention credit (ERC), is a refundable credit available to eligible businesses that paid qualified wages, including certain health insurance costs paid to employees after March 12, 2020, through the end of the program to keep their staff employed during the height of the COVID-19 pandemic.

This tax credit was introduced by the Coronavirus Aid, Relief, and Economic Security Act (CARES) in March 2020 and subsequently amended three times by the following laws; the Consolidated Appropriations Act 2021, the American Rescue Plan Act (ARPA), and the Infrastructure Investment and Jobs Act.

Qualifications

There are several requirements that the employers need to meet in order to qualify for the ERC.

- 1) The employer must have operations that were fully or partially suspended during any calendar quarter in 2020 or the first three quarters of 2021 or reduced business hours due to government order.
- 2) The business has experienced a significant decline in gross receipts.

For 2020, the decline on 2020 gross receipts should be more than 50% of the 2019 gross receipts for the employer to be qualified for ERC.

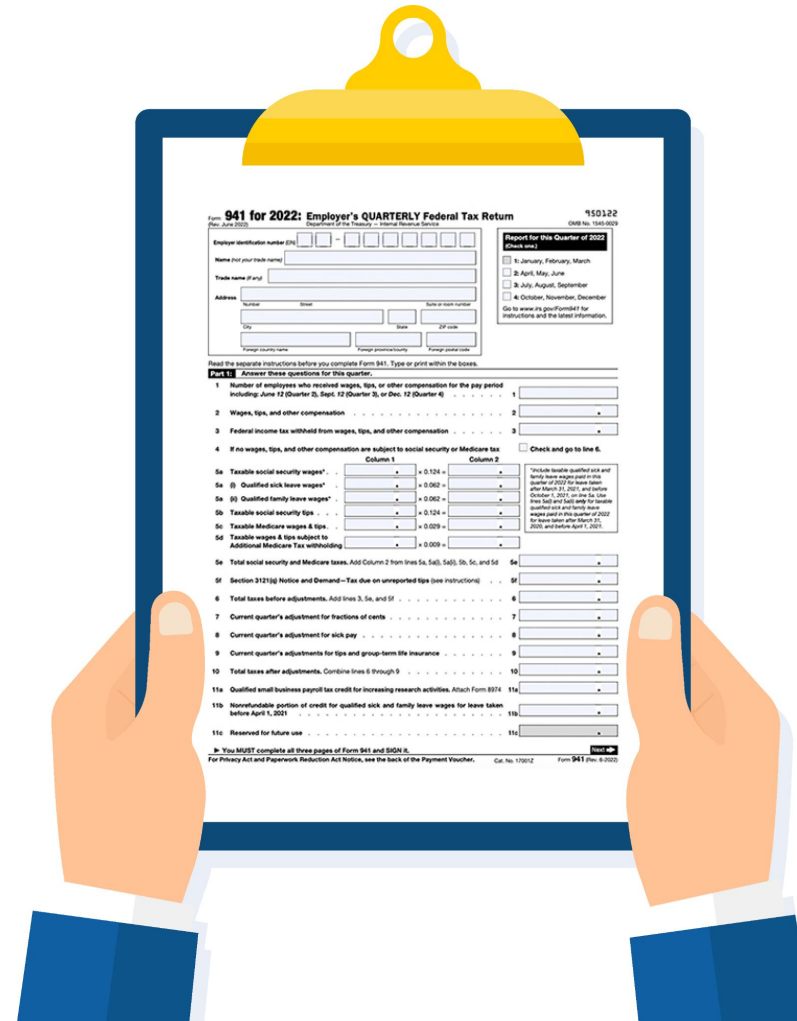
As for 2021, the 2021 per quarter gross receipts must be 80% or less compared to the quarterly gross receipts for 2019 of the same quarter. Example, the First Quarter of 2021 should be compared to the First Quarter of 2019. The decline in gross receipts should be at least 20% in order to qualify for the ERC.

Special rule for Recovery Startup Business:

Those business that have begun carrying on trade or business after Feb 15, 2020, have annual gross receipts that do not exceed \$1 million, paid employees during the 3rd and 4th quarters of 2021, and the business must have experienced either a full or partial suspension of operations due to government orders related to COVID-19 or had a significant decline in gross receipts.

How do eligible employers' apply for the credit?

Eligible Employers will report their total qualified wages, as well as the related health insurance costs for purposes of the Employee Retention Credit for each calendar quarter on their federal employment tax returns, usually Form 941, Employer's Quarterly Federal Tax Return. This is a refundable payroll tax credit and the credit amount is subtracted from the deduction of wages and/or qualified small health plan.



ERC Calculation



Determine Qualified Wages



Gather the **salaries and wages paid for employees** that are 1) not related or dependent to the employer; 2) not an owner of over 50% in value of the employer's stock or profit interests



Include the qualified health expense.

Qualified Health Expense includes both the portion of the cost paid by the Eligible Employer and the portion of the cost paid by the employee with pre-tax salary reduction contributions.



Next, we need to remove any wages that are forgiven or expected to be forgiven under the **Paycheck Protection Program or PPP.**

After calculating the qualified wages and health expense, the sum will be compared to the \$10,000 limit, whichever is lower will be multiplied to 50% for 2020, and 70% for 2021. This is done on a per employee basis.

About ERC

Key ERC Deadlines



ERC eligibility period: March 2020 to September 2021.
Claim deadline for 2020: April 15, 2024.
Claim deadline for 2021: April 15, 2025.

Important Reminders



IRS temporarily stopped processing due to ineligible claims.

Claim Processing



Claims filed before January 1, 2024, will be processed, but expect longer processing times.

Preventing Errors



Temporary stoppage is to prevent erroneous claims.

ERC Mills



IRS developing a settlement program; wait for future IRS guidance.

Common Mistakes to Avoid

- ✓ Double Counting
- ✓ Failing to Properly Document
- ✓ Working with a Filing Firm that Doesn't Prioritize Compliance

Best Practices to Avoid Any Issues

relating to your ERC claim and to increase the chances of receiving the ERC

- ✓ Keep Employee Records Updated
- ✓ Document Government Orders or Gross Receipts Decline
- ✓ Properly Record Qualified Wages
- ✓ Organize Supporting Documents
- ✓ Seek Professional Guidance


Thank you!




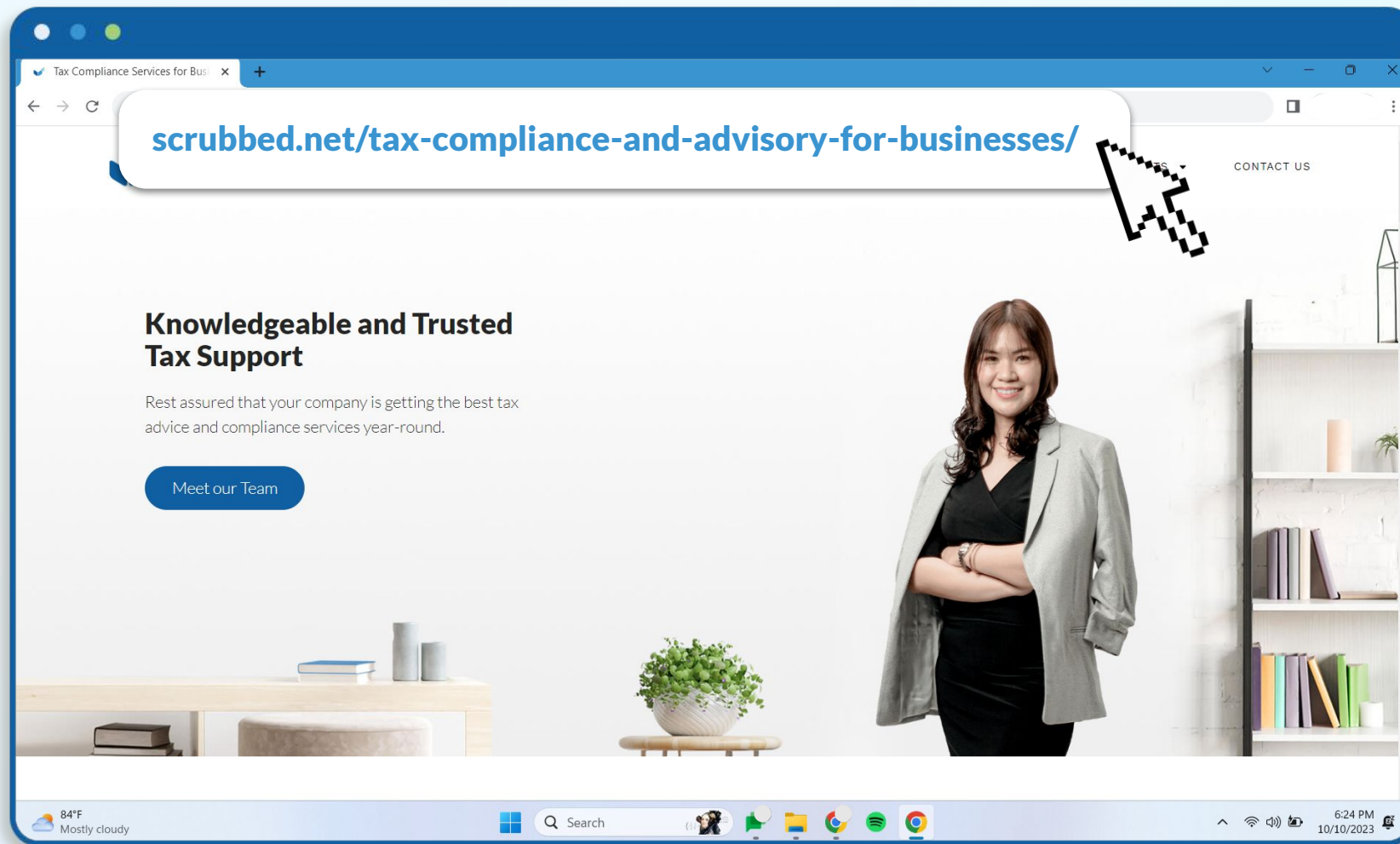
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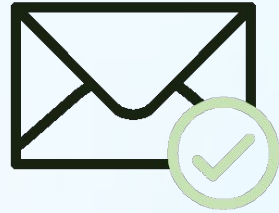
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