

**Employee retention credit available for businesses affected by COVID-19**

COVID Tax Tip 2020-58

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**Spanish version:** <https://www.irs.gov/es/newsroom/employee-retention-credit-available-for-businesses-affected-by-covid-19>

The [employee retention credit](https://www.irs.gov/newsroom/faqs-employee-retention-credit-under-the-cares-act) is designed to encourage businesses to keep employees on their payroll. The amount of the credit is 50% of qualified wages paid up to an annual limit of $10,000, which equals a maximum credit amount of $5,000 for each employee for the year.

**Who is eligible for the credit?**

The credit is available to all employers regardless of size, including tax-exempt organizations. Federal agencies, state and local governments and businesses that receive Paycheck Protection Program loans do not qualify.

Eligible employers are employers who operate a trade or business and has experienced one of these:

* Fully or partially suspended operations because of a government order due to COVID-19
* A significant decline in gross receipts in a calendar quarter when compared to 2019

**How is the credit figured?**

* The amount of the credit is half of qualifying wages paid up to $10,000 for all calendar quarters. The maximum credit for any employee is $5,000 for the year.
* Wages paid between March 12, 2020, and January 1, 2021 are eligible.
* Wages are not limited to cash payments. They also include a portion of employer-provided health care costs.

**Which wages qualify?**

Qualified wages are based on the business’s average number of full-time employees in 2019.

* Small employers, those that had 100 or fewer employees, may receive the credit for wages paid to employees whether or not they are providing services to the employer.
* Large employers, those that had more than 100 employees, may only receive the credit for wages paid to employees for time the employees are not providing services to the employer.

If an employer is eligible due to a full or partial suspension of operations, only wages paid while operations are suspended count as qualified wages.

**How do eligible employers get the credit?**

Employers must report their qualified wages on their federal employment tax returns, usually [Form 941, Employer's Quarterly Federal Tax Return](https://www.irs.gov/pub/irs-pdf/f941.pdf).

They can reduce their required deposits of payroll taxes withheld from employees’ wages by the amount of the credit. They can also request an advance of the employee retention credit by submitting [Form 7200](https://www.irs.gov/pub/irs-pdf/f7200.pdf). Eligible employers may use the employee retention credit with other relief such as, payroll tax deferral which may affect deposits and advances.

**More Information:**

[Coronavirus page](https://www.irs.gov/coronavirus) of IRS.gov.

[About Form 7200](https://www.irs.gov/forms-pubs/about-form-7200)