



Do I have to pay income tax on ERC funds?

When you receive your ERC funds, you will need to let your CPA or tax preparer know about this. These funds are not taxed as gross income, but it does reduce your payroll expenses. We suggest that you wait until you receive your refund and know your final total received, as well as the amount of interest the IRS paid out on top of the refund.

Then let your tax preparer process the associated income tax returns. Each client's taxes have a very different situation (ie: cash basis, accrual basis, loss/profits). For this reason, we cannot give advice on your individual business's income tax situation. It will be important for you to have this discussion with your tax professional, once the final amounts are received.

Here is information regarding the ERC and income taxes directly from the IRS website:

Does an Eligible Employer receiving an Employee Retention Credit for qualified wages need to include any portion of the credit in income?

No. An employer receiving a tax credit for qualified wages, including allocable qualified health plan expenses, does not include the credit in gross income for federal income tax purposes. Neither the portion of the credit that reduces the employer's applicable employment taxes, nor the refundable portion of the credit, is included in the employer's gross income.

Does the Employee Retention Credit reduce the expenses that an Eligible Employer could otherwise deduct on its federal income tax return?

Yes. Section 2301(e) of the CARES Act provides that rules similar to section 280C(a) of the Internal Revenue Code (the "Code") shall apply for purposes of applying the Employee Retention Credit. Section 280C(a) of the Code generally disallows a deduction for the portion of wages paid equal to the sum of certain credits determined for the taxable year. Accordingly, a similar deduction disallowance would apply under the Employee Retention Credit, such that an employer's aggregate deductions would be reduced by the amount of the credit as result of this disallowance rule.