

'You're hired:' US employers continue to expand payrolls and wages at a robust rate Boston Globe 12/02/2022

2023 Employee Recruiting & Retention Roadmap *Roadmap* for U.S. Businesses

Leveraging Employer Tax Incentives to Reduce Hiring & Retention Costs



Employer Tax Incentives

2022-23 & BEYOND

Growth Management Group - GMG



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"Your Growth is Our Business"

Recruiting & Retention Roadmap Leveraging Employer Tax Incentives

Step 1

**Identify & Claim
Employee Retention
& R&D Tax Credits**

Up to \$26,000/eligible employee

Step 2

**Allocate % of Incentive
Payments to Enhance
Recruitment Packages**

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Step 3

**Pre-screen New
Hires for WOTC
Tax Credits**

Up to \$9,600/eligible new hire

Employee Retention Tax Credits

As a part of the federal pandemic relief package, Congress updated a pre-existing tax credit known as the Employee Retention Credit (ERC) – aka Employee Retention Tax Credit (ERTC) - to encourage employers to keep employees on the payroll during pandemic years 2020-21.

With several expansions to ERC, nearly every employer qualifies for this tax credit. Employers are encouraged to take advantage of this expansion as each qualified employee can bring up to \$26,000 to the employer.

GMG has been helping our clients navigate tax credits for 20 years. We provide the practical help you need to navigate ERC's complexities. A quick look at our online calculator will show you how much your tax credit is likely to be.

If you claim the ERC, how will it impact your federal tax return?
Per the IRS:

"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."

Who is eligible?

Private employers, including non-profits, that:

- Had operations fully or partially suspended as a result of COVID-19 - OR
- Experienced a significant decline in gross receipts due to the coronavirus.
- Startups also now qualify.
- Employers who received **PPP loans** are **NOW ELIGIBLE FOR ERC CREDITS**

How much is the tax credit per eligible employee?

- 50% of first \$10K in 2020 compensation = \$5,000/employee
- 70% of first \$10K per quarter in Q1-3 2021 compensation = \$21,000/employee

How is the credit paid?

The credit reduces your employer Social Security tax liability.

If credit is larger than social security tax liability, you will get a direct refund from the IRS for the difference.

The credit is claimed on federal employment tax returns using Form 941, Employer's Quarterly Federal Tax Return.

An amendment can be made to your Form 941 if determined you qualify after you've filed. Eligible employers can file for an advance on the ERC and can claim the credit immediately by reducing payroll taxes to the IRS.

[Click here to see an initial estimate of your tax credits.](#)

Avoid "ERC Mills" that may not be around if ever audited

Up to
\$26,000/employee

Are You Missing Out on R&D Tax Credits?

R&D credits are effectively another payroll tax incentive as it is largely determined based on eligible employee activities that contribute to product and/or process improvements.

Introduction

What makes this white paper so timely is that some specialized tax incentives – including R&D credits - are either newly available to certain businesses and/or newly expanded to increase the potential credits and/or refunds by being able to apply them retroactively for previous year's tax filings. For R&D credits, this can cover up to four years of eligible employee activities that could turn what would previously be a marginal 5-figure gain into a healthy 6-figure gain.

Combined with court rulings favoring taxpayers, the climate's never been better - nor the rewards greater - for pursuing this specialized tax incentive if it applies to your business. And it applies to far more industries and businesses than most people realize as R&D eligibility is no longer restricted to labs, technology and other industries once considered research and development industries.

This misperception is why research and development (R&D) tax credits are one of the most overlooked tax incentives. And they are available not only from the federal government, but many states offer R&D tax credits as well (see below for more).

R&D/Payroll Tax Credits

You've probably heard of the payroll tax credit as a "research and development", or R&D, tax credit and assumed *your* business wouldn't qualify. R&D credits alone account for [\\$12B a year in business savings](#), yet 95% of eligible companies don't even try to claim them.

Let's clear that up first. Businesses owners in virtually every industry are often unaware of federal *and* state research and development (R&D) tax credits that may produce fast cash flow benefit and recurring tax relief for routine activities they often assume don't qualify as R&D.

Studies show that [only 1 in 20 businesses](#) that are eligible for them actually claim them even though they are now easier than ever to claim and apply to more employee activities.

R&D tax credits were first created in 1981 and have been continually expanded ever since. The government - often federal *and* state (state credits often exceed federal credits) - rewards companies that not only innovate new products, but also those that *improve existing products and processes*.

The definition of what's included as eligible for these credits has been expanded over the years. IRS regulations adopted in 2014 allow companies to "look back" up to three years to recapture tax credits for those years. This makes it more attractive for companies whose credits previously weren't enough to justify the effort. In some cases, their [cash benefit has quadrupled](#) with these changes.

The federal PATH Act that took effect with tax year 2016 further enhanced R&D credits by making them permanent, removing uncertainty about whether these credits would be renewed annually and the hesitation some businesses and their accountants have had in the past.

It also removed the alternative minimum tax (AMT) as a barrier. Previously, companies couldn't claim tax credits if they owed an AMT tax payment. For companies with under \$50M in revenues, that's no longer true. And those with over \$50M in revenue most likely aren't subject to AMT anyway - so basically this impediment to R&D credits has been removed.

State Credits, Too

Many states – 40 at this writing ([see list](#)) - also offer generous R&D tax credits. And in the case of R&D credits, the [state credits can often exceed the federal credits](#), making them *doubly attractive* in those states that also offer R&D credits...and *TWICE THE MISTAKE* for those who fail to claim them.

The combination of these factors is why ignoring this opportunity now is an even bigger mistake than in the past. Many businesses are leaving more money on the table now than ever.

Work Opportunity Tax Credits for New Hires

Federal Work Opportunity Tax Credits (WOTC) are general business tax credits for employers that hire job candidates from any of ten categories of underemployed target populations. The credits can offset federal income taxes and can be carried back to the prior year or carried forward 20 years.

Target groups include military veterans, long-term unemployed, SNAP (food stamp) recipient families, empowerment zone residents, summer youth workers and other underemployed target populations (see table below). Tax credits average \$2,400 per eligible new hire and, for disabled veterans unemployed for six months or more, are **up to \$9,600** that is deducted dollar-for-dollar from corporate tax payments.

Recruit More Effectively

Low unemployment and generous unemployment benefits mean record difficulty in recruiting and retaining new hires. One potential use of these tax savings is to redeploy some of it to enhance wages and benefits to better compete for talent in today's highly competitive recruitment arena – making for a “win-win” for employer and employee alike.

The termination of federal unemployment insurance subsidies will mean more potential new hires may be eligible for **these tax credits that - unlike tax deductions - fall straight to your bottom line.**

Some businesses allocate a portion of their tax savings as **hiring bonuses** payable when the relevant retention period is met. And when employees *do* move on, you're able to lower your costs of recruiting their replacement by leveraging these tax credit hiring incentives.

Target Populations

Veterans	Long-Term Unemployment Recipients
Long-Term Temporary Assistance for Needy Families Recipients	Short-Term Temporary Assistance for Needy Families Recipients
Supplemental Nutrition Assistance Program (SNAP) Recipients (Food Stamps)	Supplemental Security Income Recipients
Designated Community Residents -18-39-year-olds in federally designated Rural Renewal County/Empowerment Zone	Ex-Felons
Vocational Rehabilitation Referrals	Summer Youth Employees

GMG's paperless process for screening job applicants and optimizing eligibility for WOTC (Work Opportunity Tax Credits) and other hiring tax credits is simple:

- Job candidates answer a few simple questions using our proprietary software.
- You receive instant feedback on potential Local, State, & Federal Hiring Tax Credits.
- Upon hire, we automatically submit the necessary paperwork for approval.
- Once approved, we provide necessary payroll documents to receive the benefit.

GMG's WOTC service is paperless.



This table reflects GMG's monthly sliding fee schedule for **unlimited** eligibility searches based on the number of annual new hires.

Comparative WOTC Benefits

	Typical WOTC Provider	GMG
New Hires Annually	100	100
Typical Capture Rate	20%	40%
Qualified Hires	20	40
Average Benefit	\$2,400	\$2,400
Tax Incentive Savings	\$48,000	\$96,000
Base Incentive Fee	25%	15%
Net to Employer	\$36,000	\$81,600
GMG Performance Advantage*		2.26X*



Max Hires Per Year	Monthly Cost
9	\$19
15	\$29
25	\$49
50	\$99
75	\$149
100	\$199
150	\$299
200	\$399
200+	Custom

*Before lower processing charges that further improve GMG's performance vs. typical provider. ↴

Determine your credits today.
[Click here to visit our online calculator](#)

