

IRM PROCEDURAL UPDATE

DATE: 12/10/2020

NUMBER: wi-21-1220-1300

SUBJECT: Form 94XX Procedures for COVID Related Employment Tax Credits

AFFECTED IRM(s)/SUBSECTION(s): 21.7.2

IRM 21.7.2.7.1(13) Revised to account for addition of procedures in IRM 21.7.2.7.7.1 for handling related adjusted returns.

13. Corrections to amounts of Credit for Qualified Sick and Family Leave Wages previously reported (or omitted) on an employment tax return will generally require the filing of the appropriate Form 94XX adjusted return See IRM 21.7.2.7.7.1, *Form 94XX — Credit for Qualified Sick and Family Leave Wages*, for handling guidance.

IRM 21.7.2.7.2(10) Revised to account for addition of procedures in IRM 21.7.2.7.7.2 for handling related adjusted returns.

10. Corrections to amounts of Employee Retention Credit (ERC) previously reported (or omitted) on an employment tax return will generally require the filing of the appropriate Form 94XX adjusted return See IRM 21.7.2.7.7.2, *Form 94XX — Employee Retention Credit*, for handling guidance.

IRM 21.7.2.7.7 Revised content to provide additional information for items described in the table in (2), to provide adjustment formulas for more forms in (3), and to account in (4) for the addition of four new subsections.

1. Form 941 as revised for the second quarter (and remainder) of 2020 includes new lines for reporting tax information related to COVID-19 employment tax relief.
2. Due to timing issues, the associated new fields and field values reported on revised Form 941 could not be posted in the posted return information sections of Command Codes (CC) TXMOD and BMFOLR. Instead, the field names and field values will be recorded in the posted transaction sections of CC TXMOD and CC BMFOLT with a TC 970 transaction. The TC 970 field displays, corresponding Form 941 line numbers, and Item Reference Number (IRN) or Credit Reference Number (CRN) for adjustment purposes are as follows:

TC 970 Field Name	Form 941 Line Number and Title	IRN/CRN
SSW-COVID-SICK-LEAVE-AMT	<u>Line 5a(i), Col. 1</u> Qualified sick leave wages	IRN 200 for wages, IRN 112 for associated tax
SSW-COVID-FAMILY-LEAVE-AMT	<u>Line 5a(ii), Col. 1</u> Qualified family leave wages	IRN 201 for wages, IRN 112 for associated tax
CREDIT-QLFY-COVID-SICK-FAM-AMT	<u>Line 11b</u> Nonrefundable portion of credit for qualified sick and family leave wages	IRN 202
CREDIT-COVID-EMPL-RTNTN-AMT	<u>Line 11c</u> Nonrefundable portion of employee retention credit	IRN 203
DEFERRED-SECT-2302-AMT	<u>Line 13b</u> April 2020 Revision: Deferred amount of the employer share of social security tax July 2020 Revision: Deferred amount of social security tax	CRN 280 to alter posted transaction amount, posted field value will not change.
RFDBL-COVID-SICK-FAM-AMT	<u>Line 13c</u> Refundable portion of credit for qualified sick and family leave wages	CRN 299 to alter posted transaction amount, posted field value will not change. CAUTION: See IRM 21.7.2.7.5, <i>Form 7200, Advance Payment of Employer Credits due to COVID-19</i> , for discussion of CRN 299 with Reason Code 219 input prior to posting of original employment tax returns.
RFDBL-EMPL-RTNTN-CR-COVID-AMT	<u>Line 13d</u> Refundable portion of employee retention credit	CRN 296 to alter posted transaction amount, posted field value will not change.
F7200-ADVANCE-PAYMENTS-AMT	<u>Line 13f</u> Total advances received from filing Form(s) 7200 for the quarter	N/A
QLFY-HLTH-	<u>Line 19</u>	IRN 204

PLN-EXPNS-AI-AMT	Qualified health plan expenses allocable to qualified sick leave wages	
QLFY-HLTH-PLN-EXPNS-AII-AMT	<u>Line 20</u> Qualified health plan expenses allocable to qualified family leave wages	IRN 205
QLFY-WGS-EMPL-RTNTN-COVID-AMT	<u>Line 21</u> Qualified wages for employee retention credit	IRN 206
QLFY-HLTH-PLN-EXPNS-RPT-AMT	<u>Line 22</u> Qualified health plan expenses allocable to wages reported on Line 21	IRN 207
QTR-CREDIT-F5884C-AMT	<u>Line 23</u> Credit from Form 5884-C, line 11, for this quarter	N/A
QLFY-EMPL-MARCH-WG-PD-AMT	<u>Line 24</u> April 2020 Revision: Qualified wages paid March 13 through March 31, 2020, for the employee retention credit July 2020 Revision: Deferred amount of the employee share of social security tax included on line 13b	IRN 208 CAUTION: Line 24 represents different tax reporting items for 202006 versus 202009 and 202012. See (4) in IRM 21.7.2.7.3.2, <i>Notice 2020-65 — Deferred Payment of Employee’s Share of Social Security Taxes for 2020</i> , for more information.
QLFY-HLTH-PLN-MARCH-AMT	<u>Line 25</u> April 2020 Revision: Qualified health plan expenses allocable to wages reported on Line 24 July 2020 Revision: Reserved for future use	IRN 209 CAUTION: Only applicable to second quarter 2020 Form 941 tax returns.

CAUTION: All other IRN and CRN usage for Form 941 remains in place. However certain existing lines of Form 941 were renumbered with the current revision. Most notably, previous Line 11 is now Line 11a and will continue to be adjusted with IRN 119.

NOTE: During 2020 end of year conversion, the TC 970 fields and values will be migrated to the posted return information sections of Command Codes (CC) TXMOD and BMFOLR and the associated TC 970 "carrying" transactions will no longer be displayed.

3. The following table provides adjustment formulas for 2020 employment tax returns:

Tax Form	Tax Periods	29X adjustment must equal
Form 941	Tax periods 202006, 202009, and 202012 (only)	The sum of IRNs 111, 112, 114, and 113 less IRN 119 less IRN 202 less IRN 203.
Form 944	Tax period 202012 (only)	The sum of IRNs 111, 112, 114, and 113 less IRN 119 less IRN 202 less IRN 203.
Form 943	Tax period 202012 (only)	The sum of IRNs 003 and 007 less IRN 119 less IRN 202 less IRN 203.
Form CT-1	Tax period 202012 (only)	IRN 070 NOTE: ADJ54 does not validate the math for any other IRNs in use on MFT 09.

4. Procedures for processing Forms 94XX changing new credits and deferred payments applicable to 2020.

IRM 21.7.2.7.7.1 Added new subsection with procedures for processing Forms 94XX reflecting changes to Credit for Qualified Sick and Family Leave Wages.

1. This subsection provides specialized handling guidance for adjusting the Credit for Qualified Sick and Family Leave Wages as reported on Form 94XX (or duplicate filed employment tax returns being processed as a Form 94XX). All other Form 94XX processing guidelines and requirements also apply to Forms 94XX reporting changes to Credit for Qualified Sick and Family Leave Wages.
2. See IRM 21.7.2.7.1, *Credit for Qualified Sick and Family Leave Wages*, for general information regarding this credit.
3. Credit for Qualified Sick and Family Leave Wages can be a non-refundable credit, a refundable credit, or both, depending on the amount of the Credit for Qualified Sick and Family Leave Wages that can be claimed for a particular tax period and the amount(s) of any other non-refundable credit(s) being reported:
 - o The credit is first applied, to the extent possible, as a non-refundable credit against amounts of otherwise due employer's share of social

security taxes as previously reduced (in order) by credits for the "Qualified Small Business Payroll Tax Credit for Increasing Research Activities" (QSB Research Credit) from Form 8974 (filed with Form 941 or other employment tax form) and any "Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans" from Form 5884-C (filed after original employment tax forms are filed) reported for the tax period.

- Any amount of Credit for Qualified Sick and Family Leave Wages for a tax period that cannot be applied against amounts of otherwise due employer's share of social security taxes can instead be claimed as a refundable credit on the applicable employment tax return.

4. The following IRNs and CRNs are associated with adjustments to the Credit for Qualified Sick and Family Leave Wages:

TC 970 Field Name	Form 941 Line Number and Title	IRN/CRN
SSW-COVID-SICK-LEAVE-AMT	<u>Line 5a(i), Col. 1</u> Qualified sick leave wages	IRN 200 for wages, IRN 112 for associated tax
SSW-COVID-FAMILY-LEAVE-AMT	<u>Line 5a(ii), Col. 1</u> Qualified family leave wages	IRN 201 for wages, IRN 112 for associated tax
CREDIT-QLFY-COVID-SICK-FAM-AMT	<u>Line 11b</u> Nonrefundable portion of credit for qualified sick and family leave wages	IRN 202
RFDBL-COVID-SICK-FAM-AMT	<u>Line 13c</u> Refundable portion of credit for qualified sick and family leave wages	CRN 299 to alter posted transaction amount, posted field value will not change. CAUTION: See IRM 21.7.2.7.5, <i>Form 7200, Advance Payment of Employer Credits due to COVID-19</i> , for discussion of CRN 299 with Reason Code 219 input prior to posting of original employment tax returns.
QLFY-HLTH-PLN-EXPNS-AI-AMT	<u>Line 19</u> Qualified health plan expenses allocable to qualified sick leave wages	IRN 204
QLFY-HLTH-PLN-EXPNS-AII-AMT	<u>Line 20</u> Qualified health plan	IRN 205

	expenses allocable to qualified family leave wages	
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5. **IRN 202** is used along with TC 290, TC 291, or TC 298 (as appropriate) to record adjustments to the non-refundable portion of Credit for Qualified Sick and Family Leave Wages on Form 941, Form 943, Form 944 and Form CT-1 tax accounts.
- An increase to the credit will be recorded with a positive IRN 202 amount and a corresponding decrease to tax (i.e., a TC 291 for the same amount if no other changes were reported).
 - A decrease to the credit will be recorded with a negative IRN 202 amount and a corresponding increase to tax (i.e., a TC 290/298 for the same amount if no other changes were reported).

EXAMPLE: A Form 941-X is filed claiming an increase to non-refundable Credit for Qualified Sick and Family Leave Wages in the amount of \$75. Assuming all processing requirements are met, the adjustment to be made would be a TC 291 for \$75.00- and an IRN 202 for \$75.00.

EXAMPLE: A Form 941-X is filed reporting a decrease to non-refundable Credit for Qualified Sick and Family Leave Wages in the amount of \$90. Assuming all processing requirements are met, the adjustment to be made would be a TC 290 (or TC 298 as applicable) for \$90.00 and an IRN 202 for \$90.00-.

NOTE: IRN 202 can be combined on Command Code ADJ54 adjustments with any other IRN or CRN valid for the form being adjusted.

6. **CRN 299** is used to record adjustment to the refundable portion of Credit for Qualified Sick and Family Leave Wages on Form 941, Form 943, Form 944 and Form CT-1 tax accounts. Use a positive CRN 299 when increasing the credit (TC 766 is generated) or a minus (-) CRN 299 when decreasing the credit (TC 767 is generated).

NOTE: CRN 299 can be combined on Command Code ADJ54 adjustments with any other IRN or CRN valid for the form being adjusted.

CAUTION: As discussed in IRM 21.7.2.7.5, *Form 7200, Advance Payment of Employer Credits due to COVID-19*, CRN 299 (with Reason Code 219) is also used to record temporary credits for purposes of triggering systemic refunds/offsets when advance payments requests filed on Form 7200 are processed. The temporary credits are reversed in full when the original employment tax return is processed and replaced with the “true” credits reported on the employment tax return. As such, reversed CRN 299 / Reason Code 219 amounts are not to be considered when processing Forms 94XX reporting changes to refundable Credit for Qualified Sick and Family Leave Wages.

7. Corrections to this credit will usually be seen along with corrections to the related wage figures and/or allocable qualified health plan expenses.
 - **IRN 200** is used to either increase or decrease qualified sick leave wages.
 - **IRN 201** is used to either increase or decrease qualified family leave wages.
 - **IRN 204** is used to either increase or decrease qualified health plan expenses allocable to qualified sick leave wages.
 - **IRN 205** is used to either increase or decrease qualified health plan expenses allocable to qualified family leave wages.

REMINDER: These wages are not subject to employer's share of social security tax (i.e., the wages are only subject to employee's share of social security tax at a 6.2% tax rate). Changes (increase or decrease) to the employee's share of social security tax (reported in Column 2 of Line 5a(i) and Line 5a(i)(i)) are recorded with the appropriate IRN 112 adjustment.

8. An increase to the refundable or nonrefundable (i.e., decrease to tax) portions of the credit may meet examination criteria. See Exhibit 21.5.3-2 , *Examination Criteria (CAT-A) — General*.

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9. **Process Forms 94XX claiming non-refundable or refundable amounts of Credit for Qualified Sick and Family Leave Wages as per guidance in the paragraphs which follow.**

NOTE: In lieu of guidance found in (11) and (12) below, the worksheet provided in Exhibit 21.7.2-2, *Worksheet: Form 94XX — Credit for Qualified Sick and Family Leave Wages*, may (not required) be used to compute allowable non-refundable and refundable portions of Employee Retention Credit.

EXCEPTION: Review the tax account for which the Form 94XX was filed for any posted CRN 280 deferred payment amount. If the account reflects a previously recorded CRN 280 amount, or if the Form 94XX under consideration includes a change to deferred payment amounts (increase or decrease), suspend the case until handling guidance is added to IRM 21.7.2.7.3, *Form 94XX — Corrections to Deferred Payments and Adjusting Accounts with Previously Recorded CRN 280 Amounts*.

10. Reject any Form 94XX claiming non-refundable or refundable amounts of Credit for Qualified Sick and Family Leave Wages that is filed for an **invalid** tax period or tax form. As appropriate, follow guidance in IRM 21.5.3.4.6.3,

No Consideration Procedures, and issue Letter 916C advising the employer the credit is not available for the form/tax period (specify) for they filed a Form 94XX. The valid forms and tax periods for the Credit for Qualified Sick and Family Leave Wages are as follows:

- Form 941: Tax periods 202006, 202009, and 202012 **only**.
- Form 943, Form 944, and Form CT-1: Tax period 202012 **only**.

NOTE: Credit for Qualified Sick and Family Leave Wages is also applicable to Schedule H filed with Form 1041. Guidance for handling adjustments on those account will be developed and placed in the appropriate subsection of IRM 21.7.4.

11. In addition to all other verification requirements applicable to the Form 94XX (or original tax return), the following items are required to be verified prior to processing a Form 94XX requesting a change to the **non-refundable** portion of Credit for Qualified Sick and Family Leave Wages to ensure non-refundable credits claimed do not exceed the employer's share of social security taxes:
1. If the taxpayer is also making corrections to the QSB Research Credit, follow procedures in IRM 21.7.2.5.28.1, *Processing Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities*, **before** proceeding with the instructions found in this subsection for adjusting Credit for Qualified Sick and Family Leave Wages.
 2. Add the taxable social security wages and the taxable social security tips as adjusted on the Form 94XX, or as recorded on the account if these amounts are not being corrected. Multiply that total figure by 6.2%.
 3. # [REDACTED]
 4. Add the figures from Step 2 and Step 3 above.
 5. Subtract any amount of QSB Research Credit, as adjusted on the Form 94XX or as recorded on the account if this amount is not being corrected, from the amount determined in Step 4 above. If the result is a negative figure, treat the result as zero.
 6. The amount to be allowed for the non-refundable portion of the Credit for Qualified Sick and Family Leave Wages is the **lesser** (smaller) of the amount determined in Step 5 above or the amount claimed on the Form 94XX. If the taxpayer is also making changes to the refundable portion of the Credit for Qualified Sick and Family Leave Wages, proceed to the instruction in (12) below. Otherwise, proceed to the instructions in (13) below.

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[REDACTED]

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12. For changes to the **refundable** portion of Credit for Qualified Sick and Family Leave Wages (increases or decreases), # [REDACTED]

1. Determine the current figure for Taxable Medicare wages & tips as previously reported or as corrected on the Form 94XX filed.
2. Multiply the wage figure in Step 1 by 1.45%.
3. Determine the current figure for Qualified health plan expenses allocable to sick leave wages as previously reported or as corrected on the Form 94XX filed.
4. Determine the current figure for Qualified health plan expenses allocable to family leave wages as previously reported or as corrected on the Form 94XX filed.
5. # [REDACTED] #
6. Subtract the figure for any non-refundable portion of Credit for Qualified Sick and Family Leave Wages (as determined in (11) above) from the amount determined in Step 5. If the result is negative, treat the result as zero.
7. The amount to be allowed for the refundable portion of the refundable Credit for Qualified Sick and Family Leave Wages is the **lesser** (smaller) of the amount determined in Step 6 or the amount claimed on the Form 94XX. Proceed to the instructions in (13) below.

13. After determining the amounts allowable with the adjustment for the non-refundable and refundable portions of the Qualified Sick and Family Leave Wages in (11) and (12) above:

- Record the corrections with IRNs 200/201/202 and CRN 299 as described in (5), (6), and (7) above.
- If the amount being allowed for either the non-refundable or the refundable portions of Credit for Qualified Sick and Family Leave Wages is less than what was claimed on the Form 94XX, disallow or partially disallow the claim and send Letter 105C or Letter 106C (as appropriate) per instructions in IRM 21.5.3.4.6.1, *Disallowance and Partial Disallowance Procedures*. Indicate in the letter the claim for the credit claimed on line (specify line) of Form 94XX (specify form filed) exceeded the amount that could be claimed for the tax period.

CAUTION: Do **not** increase the refundable portion of Credit for Qualified Sick and Family Leave Wages claimed by the taxpayer to allow any amount of non-refundable portion of Credit for Qualified Sick and Family Leave Wages being disallowed per the verification steps described above. The taxpayer will need to file a new Form 94XX to claim any additional refundable portion of Credit for Qualified Sick and Family Leave Wages for which they are eligible.

NOTE: See IRM 21.7.2.7.7.4, *Form 94XX — Adjustments When the Number of CRN and IRN Corrections Exceed Command Code ADJ54 Input Limitations*, to determine the order of adjusting IRNs and CRNs when multiple adjustments are required to record a single Form 94XX.

14. After applying the special procedures described in this subsection, continue processing complete claims and requests for adjustment of the Credit for Qualified Sick and Family Leave Wages as per the general procedures in IRM 21.7.2.4.6 and the specific procedures applicable to the type of Form 94XX filed (e.g., for a tax decrease - claim for refund filed on Form 941-X, follow IRM 21.7.2.4.7.6.2, *Form 941-X Tax Decrease — Claim*).

IRM 21.7.2.7.7.2 Added new subsection with procedures for processing Forms 94XX reflecting changes to Employee Retention Credit.

1. This subsection provides specialized handling guidance for adjusting the Employee Retention Credit as reported on Form 94XX (or duplicate filed employment tax returns being processed as a Form 94XX). All other Form 94XX processing guidelines and requirements also apply to Forms 94XX reporting changes to Employee Retention Credit.
2. See IRM 21.7.2.7.2, *Employee Retention Credit*, for general information regarding this credit.
3. Employee Retention Credit can be a non-refundable credit, a refundable credit, or both, depending on the amount of the Employee Retention Credit that can be claimed for a particular tax period and the amount(s) of any other non-refundable credit(s) being reported:
 - The credit is first applied, to the extent possible, as a non-refundable credit against amounts of otherwise due employer’s share of social security taxes as previously reduced (in order) by credits for the "Qualified Small Business Payroll Tax Credit for Increasing Research Activities" (QSB Research Credit) from Form 8974 (filed with Form 941 or other employment tax form) and any "Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans" from Form 5884-C (filed after original employment tax forms are filed) reported for the tax period.
 - Any amount of Retention Credit for a tax period that cannot be applied against amounts of otherwise due employer’s share of social security taxes can instead be claimed as a refundable credit on the applicable employment tax return.
4. The following IRNs and CRNs are associated with adjustments to the Employee Retention Credit:

TC 970 Field Name	Form 941 Line Number and Title	IRN/CRN
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CREDIT- COVID- EMPL- RTNTN- AMT	Line 11c Nonrefundable portion of employee retention credit	IRN 203
RFDBL- EMPL- RTNTN- CR- COVID- AMT	Line 13d Refundable portion of employee retention credit	CRN 296 to alter posted transaction amount, posted field value will not change.
QLFY- WGS- EMPL- RTNTN- COVID- AMT	Line 21 Qualified wages for employee retention credit	IRN 206
QLFY- HLTH-PLN- EXPNS- RPT-AMT	Line 22 Qualified health plan expenses allocable to wages reported on Line 21	IRN 207
QLFY- EMPL- MARCH- WG-PD- AMT	Line 24 April 2020 Revision: Qualified wages paid March 13 through March 31, 2020, for the employee retention credit July 2020 Revision: Deferred amount of the employee share of social security tax included on line 13b	IRN 208 CAUTION: Line 24 of Form 941 represents different tax reporting items for 202006 versus 202009 and 202012. See (4) in IRM 21.7.2.7.3.2, <i>Notice 2020-65 — Deferred Payment of Employee’s Share of Social Security Taxes for 2020</i> , for more information.
QLFY- HLTH-PLN- MARCH- AMT	Line 25 April 2020 Revision: Qualified health plan expenses allocable to wages reported on Line 24 July 2020 Revision: Reserved for future use	IRN 209 CAUTION: Only applicable to second quarter 2020 Form 941 tax returns.

5. **IRN 203** is used along with TC 290, TC 291, or TC 298 (as appropriate) to record adjustments to the non-refundable portion of Employee Retention Credit on Form 941, Form 943, Form 944 and Form CT-1 tax accounts.
 - An increase to the credit will be recorded with a positive IRN 203 amount and a corresponding decrease to tax (i.e., a TC 291 for the same amount if no other changes were reported).
 - A decrease to the credit will be recorded with a negative IRN 203 amount and a corresponding increase to tax (i.e., a TC 290/298 for the same amount if no other changes were reported).

EXAMPLE: A Form 941-X is filed claiming an increase to non-refundable Employee Retention Credit in the amount of \$75. Assuming all processing requirements are met, the adjustment to be made would be a TC 291 for \$75.00- and an IRN 203 for \$75.00.

EXAMPLE: A Form 941-X is filed reporting a decrease to non-refundable Employee Retention Credit in the amount of \$90. Assuming all processing requirements are met, the adjustment to be made would be a TC 290 (or TC 298 as applicable) for \$90.00 and an IRN 203 for \$90.00-.

NOTE: IRN 203 can be combined on Command Code ADJ54 adjustments with any other IRN or CRN valid for the form being adjusted.

6. **CRN 296** is used to record adjustment to the refundable portion of Employee Retention Credit on Form 941, Form 943, Form 944 and Form CT-1 tax accounts. Use a positive CRN 296 when increasing the credit (TC 766 is generated) or a minus (-) CRN 299 when decreasing the credit (TC 767 is generated).

NOTE: CRN 296 can be combined on Command Code ADJ54 adjustments with any other IRN or CRN valid for the form being adjusted.

7. Corrections to this credit will usually be seen along with corrections to a related wage figure and/or allocable qualified health plan expenses.
 - **IRN 206** is used to either increase or decrease qualified wages for employee retention credit.
 - **IRN 207** is used to either increase or decrease qualified health plan expenses allocable to wages reported on Line 21 (i.e., qualified wages for employee retention credit).
8. In addition, for second quarter 2020 Form 941 accounts (**only**), it may be necessary to record changes to figures relating to amounts of Employee Retention Credit attributable to first quarter 2020 which were required to be reported on second quarter Forms 941. (See the last bullet in (6) of IRM 21.7.2.7.2, *Employee Retention Credit*, and IRM 21.7.2.7.6.1, *Employee Retention Credit — First Quarter 2020 Form 941*, for more information on that topic.)

- **IRN 208** is used to either increase or decrease qualified wages paid March 13 through March 31, 2020, for the employee retention credit.

CAUTION: Line 24 on Form 941 represents different tax reporting items for 202006 versus 202009 and 202012. See (4) in IRM 21.7.2.7.3.2, *Notice 2020-65 — Deferred Payment of Employee’s Share of Social Security Taxes for 2020*, for more information.

- **IRN 209** is used to either increase or decrease qualified health plan expenses allocable to wages reported on Line 24 (i.e., qualified wages paid March 13 through March 31, 2020, for the employee retention credit).

9. An increase to the refundable or nonrefundable (i.e., decrease to tax) portions of the credit may meet examination criteria. See Exhibit 21.5.3–2 , *Examination Criteria (CAT-A) — General*.

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10. **Process Forms 94XX claiming non-refundable or refundable amounts of Employee Retention Credit as per guidance in the paragraphs which follow.**

NOTE: In lieu of guidance found in (12), (13), and (14) below, the worksheet provided in Exhibit 21.7.2-3, *Worksheet: Form 94XX — Employee Retention Credit*, may (not required) be used to compute allowable non-refundable and refundable portions of Employee Retention Credit.

EXCEPTION: Review the tax account for which the Form 94XX was filed for any posted CRN 280 deferred payment amount. If the account reflects a previously recorded CRN 280 amount, or if the Form 94XX under consideration includes a change to deferred payment amounts (increase or decrease), suspend the case until handling guidance is added to IRM 21.7.2.7.7.3, *Form 94XX — Corrections to Deferred Payments and Adjusting Accounts with Previously Recorded CRN 280 Amounts*.

11. Reject any Form 94XX claiming non-refundable or refundable amounts of Employee Retention Credit that is filed for an **invalid** tax period or tax form. As appropriate, follow guidance in IRM 21.5.3.4.6.3, *No Consideration Procedures*, and issue Letter 916C advising the employer the credit is not available for the form/tax period (specify) for they filed a Form 94XX. The valid forms and tax periods for the Employee Retention Credit are as follows:
- Form 941: Tax periods 202006, 202009, and 202012 **only**.
 - Form 943, Form 944, and Form CT-1: Tax period 202012 **only**.

REMINDER: For Form 941, any Employee Retention Credit attributable to first quarter 2020 must be claimed on an original or adjusted employment tax return filed for the second quarter of 2020. See (8) above.

12. Before proceeding to additional verification steps in (13) and (14) below, determine the amount of Employee Retention Credit that can be claimed in the quarter for which the Form 94XX was filed as follows:
 1. Using the figures from the original return or as adjusted on the current Form 94XX, add qualified wages for employee retention credit and qualified health plan expenses allocable to wages reported on Line 21 (i.e., qualified wages for employee retention credit) together. Multiply the result by 50 percent.
 2. For Form 941, second quarter (202006) **only**, using the figures from the original return or as adjusted on the current Form 94XX, add qualified wages paid March 13 through March 31, 2020, for the employee retention credit and qualified health plan expenses allocable to wages reported on Line 24 (i.e., qualified wages paid March 13 through March 31, 2020, for the employee retention credit). Multiply the result by 50 percent.
 3. Add the amounts determined in Step 1 and Step 2. This figure is the maximum amount of Employee Retention Credit that can be claimed in the quarter for which the Form 94XX was filed and is used in the (13) and (14) verification handling which follow.

13. In addition to all other verification requirements applicable to the Form 94XX (or original tax return), the following items are required to be verified prior to processing a Form 94XX requesting a change to the **non-refundable** portion of Employee Retention Credit to ensure non-refundable credits claimed do not exceed the employer's share of social security taxes:
 1. If the taxpayer is also making corrections to the QSB Research Credit, follow procedures in IRM 21.7.2.5.28.1, Processing Form 8974, Qualified Small Business Payroll Tax Credit for Increasing Research Activities, before proceeding with the instructions found in this subsection for adjusting Credit for Qualified Sick and Family Leave Wages.
 2. If the taxpayer is also making corrections to the Credit for Qualified Sick and Family Leave Wages (non-refundable or refundable portions), follow procedures in IRM 21.7.2.7.7.1, Form 94XX — Credit for Qualified Sick and Family Leave Wages, before proceeding with the instructions found in this subsection for adjusting Employee Retention Credit.
 3. Add the taxable social security wages and the taxable social security tips as adjusted on the Form 94XX, or as recorded on the account if these amounts are not being corrected. Multiply that total figure by 6.2%.
 4. # [REDACTED]

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5. Add the figures from Step 3 and Step 4 above.
 6. Subtract any amount of QSB Research Credit, as adjusted on the Form 94XX or as recorded on the account if this amount is not being corrected from the amount determined in Step 5 above. If the result is a negative figure, treat the result as zero.
 7. Subtract the amount of non-refundable Credit for Qualified Sick and Family Leave Wages as previously reported or (if also being corrected per the Form 94XX under consideration) as determined in (11) of IRM 21.7.2.7.7.1, Form 94XX — Credit for Qualified Sick and Family Leave Wages, from the figure determined in Step 6 above. If the result is a negative figure, treat the result as zero.
 8. The amount to be allowed for the non-refundable portion of the Employee Retention Credit is the lesser (smaller) of the amount determined in Step 7 above or the total Employee Retention Credit determined in (12) above or the amount claimed on the Form 94XX. If the taxpayer is also making changes to the refundable portion of the Employee Retention Credit, proceed to the instruction in (14) below. Otherwise, proceed to the instructions in (15) below.

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14. In addition to all other verification requirements applicable to the Form 94XX (or original tax return), the following items are required to be verified prior to processing a Form 94XX requesting a change to the **refundable** portion of Employee Retention Credit:
 1. Subtract the amount for the non-refundable portion of the Employee Retention Credit previously recorded (if any) or the amount determined in (13) above from the maximum Employee Retention Credit determined in (12) above.
 2. The allowable amount of refundable Employee Retention Credit is the lesser (smaller) of the amount claimed on Form 94XX or the amount determined in Step 1 immediately above. Proceed to the instructions in (15) below.
15. After determining the amounts allowable with the adjustment for the non-refundable and refundable portions of the Employee Retention Credit in (13) and (14) above:
 - Record the corrections with IRNs 203/206/207/208/209 and CRN 296 as described in (5), (6), (7) and (8) above.
 - If the amount being allowed for either the non-refundable or the refundable portions of Employee Retention Credit is less than what was claimed on the Form 94XX, disallow or partially disallow the claim and send Letter 105C or Letter 106C (as appropriate) per instructions

in IRM 21.5.3.4.6.1, *Disallowance and Partial Disallowance Procedures*. Indicate in the letter the claim for the credit claimed on line (specify line) of Form 94XX (specify form filed) exceeded the amount that could be claimed for the tax period.

CAUTION: Do **not** increase the refundable portion of Employee Retention Credit claimed by the taxpayer to allow any amount of non-refundable portion of Employee Retention Credit being disallowed per the verification steps described above. The taxpayer will need to file a new Form 94XX to claim any additional refundable portion of Employee Retention Credit for which they are eligible.

NOTE: See IRM 21.7.2.7.7.4, *Form 94XX — Adjustments When the Number of CRN and IRN Corrections Exceed Command Code ADJ54 Input Limitations*, to determine the order of adjusting IRNs and CRNs when multiple adjustments are required to record a single Form 94XX.

16. After applying the special procedures described in this subsection, continue processing complete claims and requests for adjustment of the Employee Retention Credit as per the general procedures in IRM 21.7.2.4.6 and the specific procedures applicable to the type of Form 94XX filed (e.g., for a tax decrease - claim for refund filed on Form 941-X, follow IRM 21.7.2.4.7.6.2, *Form 941-X Tax Decrease — Claim*).

IRM 21.7.2.7.7.3 Added new subsection with procedures for processing Forms 94XX reflecting changes to deferred payments and accounts with previously recorded CRN 280 amounts.

1. Guidance for these issues remains under development.
2. See IRM 21.7.2.7.3, *Deferred Payment of Social Security Taxes for 2020*, for general guidance on deferred payments for employment taxes.
3. Until additional handling guidance is available, no adjustment actions (including penalty abatements) or credit transfers should be made to accounts on which deferred payment amounts were previously requested or to accounts for which the taxpayer is requesting to record a new deferred payment amount. Any Form 94XX case with this fact pattern should instead be suspended.

IRM 21.7.2.7.7.4 Added new subsection with procedures for processing Forms 94XX when the number of CRN and IRN corrections exceed Command Code ADJ54 input limitations.

1. With the addition of new Credit Reference Numbers (CRNs) and Item Reference Numbers (IRNs) applicable to 2020 employment tax accounts,

there will often be occasions where the number of CRNs and IRNs required to record changes requested on Form 94XX will exceed the entry capacity of eight data fields for a single Command Code ADJ54 input screen.

2. Generally speaking, when more than one adjustment is required to record all necessary IRN/CRN correction items:
 1. The first adjustment should include all the CRNs being adjusted and those IRNs that directly factor into the 29x adjustment.
 2. IRN changes that do not directly factor into the tax calculation which could not be input with the first adjustment should be input with a subsequent TC 290 .00 adjustment (or more than one if needed) using Hold Code 3 and a Posting Delay Code.
3. If there are too many CRNs and IRNs that directly factor into the 29x adjustment to fit in one ADJ54 input, it will be necessary to do two adjustments for that purpose:
 1. The first tax adjustment should include the non-COVID related tax adjustment items and be done with a Hold Code 4.
 2. The second tax adjustment should then be input for the COVID related tax adjustment items with a Post Delay Code and a Hold Code 3.
 3. A third adjustment with an additional post delay may then be needed to adjust any remaining IRNs that could not be entered in the first two adjustments.
 4. Issue a Letter 4384C explaining the adjustment action taken (required due to Hold Code usage described above).

NOTE: Contact the IRM author through your management chain and the site P&A Staff for guidance on handling cases for any unusual adjustment situations are encountered for which the guidance provided here appears to be inconsistent with the necessary account outcome.

4. The following table contains information on IRNs and CRNs usage to assist in the ordering of transactions described above:

	Non-COVID Related Tax/Credit Adjustment Items	COVID Related Tax/Credit Adjustment Items	Non-Tax/Credit Adjustment Items
Form 941	IRN 111	IRN 202	IRN 004
	IRN 112	IRN 203	IRN 005
	IRN 114	CRN 296	IRN 073
	IRN 113	CRN 299	IRN 074
	IRN 119	CRN 280	IRN 200
	REMINDER: If adjusting		IRN 201

	IRN 113, a corresponding change is required to one or more of IRNs 104 through 110.		IRN 204 IRN 205 IRN 206 IRN 207 IRN 208 IRN 209
Form 944	IRN 111 IRN 112 IRN 113 IRN 119 REMINDER: If adjusting IRN 113, a corresponding change is required to one or more of IRNs 104 through 110.	IRN 202 IRN 203 CRN 296 CRN 299 CRN 280	IRN 004 IRN 005 IRN 073 IRN 074 IRN 200 IRN 201 IRN 204 IRN 205 IRN 206 IRN 207 IRN 208 IRN 209
Form 943	IRN 003 IRN 007	IRN 202 IRN 203 CRN 296 CRN 299 CRN 280	IRN 004 IRN 073 IRN 074 IRN 185 IRN 200 IRN 201 IRN 204

			IRN 205 IRN 206 IRN 207 IRN 208 IRN 209
Form CT-1	IRN 070	CRN 296 CRN 299 CRN 280	IRN 200 IRN 201 IRN 202 IRN 203 IRN 204 IRN 205 IRN 206 IRN 207 IRN 208 IRN 209

NOTE: CRN 290 is used in the processing of Form 5884-C, *Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans*. and will generally not be adjusted in connection with Forms 94XX addressed under these procedures. Forms 5884-C are processed as per guidance in IRM 21.7.2.5.22, *Form 5884-C, Work Opportunity Credit for Qualified Tax-Exempt Organizations Hiring Qualified Veterans*

5. For additional information on employment tax adjustment formulas, see:
 - The table in (3) in IRM 21.7.2.7.7, *COVID-19 Related Employment Tax Relief and Forms 94XX* for 2020 employment tax accounts:
 - The table in (1) of IRM 21.7.2.4.1.1, *TC 29X / Item Reference Number (IRN) Valid Adjustment Formulas — Employment Taxes*, for employment tax accounts for other years.
5. For additional guidance on IRN and CRN usage with employment tax accounts, see:

- See (2) of IRM 21.7.2.7.7, *COVID-19 Related Employment Tax Relief and Forms 94XX*, for a list of the new IRNs and CRNs applicable to 2020 employment tax accounts including Form 941, Form 943, Form 944, and Form CT-1.
- See (1) of IRM 21.7.2.4.1, *Item Reference Numbers (IRNs) and Credit Reference Numbers (CRNs) — Employment Taxes*, for a list of other IRNs/CRNs applicable to Form 941 and Form 944 accounts.
- See (3) in IRM 21.7.2.4.8.3, *Form 943-X, Adjusted Employer's Annual Tax Return for Agricultural Employees or Claim for Refund (including Form 943-X (PR))*, for a list of other IRNs/CRNs applicable to Form 943 accounts.
- See IRM 21.7.2.6.5.1, *Form CT-1 Tax Adjustments*, for a list of other IRNs/CRNs applicable to Form CT-1 accounts.

REMINDER: Processing of Form CT-1 claims and inquiries is centralized. See IRM 21.7.2.6.4.1, *Required Routing for Form CT-1 and Form CT-1X Inquiries and Claims*, for more information.

Exhibit 21.7.2-2 Added Exhibit with worksheet for computing allowable amounts of non-refundable and refundable portions of Credit for Qualified Sick and Family Leave Wages when working Forms 94XX.

The worksheet which follows may (not required) be used together with the procedures in IRM 21.7.2.7.7.2, *Form 94XX — Employee Retention Credit*, to calculate non-refundable and refundable portions of Employee Retention Credit when processing adjustment requests submitted on Forms 94XX.

NOTE: If the taxpayer is changing the refundable portion of the credit but not the non-refundable portion, Lines 10 through 22 of the worksheet can be skipped; complete Lines 1 through 9, enter the amount of previously recorded (if any) non-refundable Employee Retention Credit on Line 23, and complete Lines 24 through 26. Similarly, if the taxpayer is changing the non-refundable portion of the credit but not the refundable portion, Lines 24, 25, and 26 can be skipped.

CAUTION: All figures identified below are as adjusted on the Form 94XX under consideration or as previously reported if not being changed on the Form 94XX filed.

1	Enter the qualified wages for employee retention credit.
2	Enter the qualified health plan expenses allocable to wages reported on Line 21 (i.e., qualified wages for employee retention credit).
3	Add the figures from Line 1 and Line 2 together.

4	Multiply the result on Line 3 by 50% (decimal 0.50).
5	Form 941, second quarter (202006) only: Enter qualified wages paid March 13 through March 31, 2020, for the employee retention credit.
6	Form 941, second quarter (202006) only: Enter qualified health plan expenses allocable to wages reported on Line 24 (i.e., qualified wages paid March 13 through March 31, 2020, for the employee retention credit).
7	Form 941, second quarter (202006) only: Add the figures from Line 5 and Line 6 together.
8	Form 941, second quarter (202006) only: Multiply the result on Line 7 by (decimal 0.50).
9	Add the figures from Line 4 and Line 8 (if any) together. This is the allowable total amount for Employee Retention Credit (non-refundable and refundable portions).
10	Enter taxable social security wages.
11	Enter taxable social security tips.
12	Add the entries in Line 10 and Line 11 together.
13	Multiply 12 by 6.2% (decimal 0.062).
14	# [REDACTED] #
15	# [REDACTED] #
16	# [REDACTED] #
17	Add the figures from Line 13, Line 14, Line 15, and Line 16 together.
18	Enter the amount of any QSB Research Credit.
19	Subtract the figure on Line 18 from the figure on Line 17. If the result is a negative figure, enter zero.
20	Enter the amount of non-refundable Credit for Qualified Sick and Family Leave Wages as previously reported or as determined in (11) of IRM 21.7.2.7.7.1, <i>Form 94XX</i> —

	<i>Credit for Qualified Sick and Family Leave Wages.</i>
21	Subtract the figure on Line 20 from the figure on Line 19. If the result is a negative figure, enter zero.
22	Enter the taxpayer's figure for non-refundable portion of Employee Retention Credit.
23	Enter the lesser (smaller) of the figure on Line 9 or Line 21 or Line 22. This is the allowable amount for non-refundable portion of Employee Retention Credit.
24	Subtract the amount on Line 23 from the amount on Line 9.
25	Enter the amount of refundable Employee Retention Credit claimed on Form 94XX.
26	Enter the lesser (smaller) of the figure on Line 24 or Line 25. This is the allowable amount for refundable portion of Employee Retention Credit.

Exhibit 21.7.2-3 Added Exhibit with worksheet for computing allowable amounts of non-refundable and refundable portions of Employee Retention Credit when working Forms 94XX.

The worksheet which follows may (not required) be used together with the procedures in IRM 21.7.2.7.7.2, *Form 94XX — Employee Retention Credit*, to calculate non-refundable and refundable portions of Employee Retention Credit when processing adjustment requests submitted on Forms 94XX.

NOTE: If the taxpayer is changing the refundable portion of the credit but not the non-refundable portion, Lines 10 through 22 of the worksheet can be skipped; complete Lines 1 through 9, enter the amount of previously recorded (if any) non-refundable Employee Retention Credit on Line 23, and complete Lines 24 through 26. Similarly, if the taxpayer is changing the non-refundable portion of the credit but not the refundable portion, Lines 24, 25, and 26 can be skipped.

CAUTION: All figures identified below are as adjusted on the Form 94XX under consideration or as previously reported if not being changed on the Form 94XX filed.

1	Enter the qualified wages for employee retention credit.
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2	Enter the qualified health plan expenses allocable to wages reported on Line 21 (i.e., qualified wages for employee retention credit).
3	Add the figures from Line 1 and Line 2 together.
4	Multiply the result on Line 3 by 50% (decimal 0.50).
5	Form 941, second quarter (202006) only: Enter qualified wages paid March 13 through March 31, 2020, for the employee retention credit.
6	Form 941, second quarter (202006) only: Enter qualified health plan expenses allocable to wages reported on Line 24 (i.e., qualified wages paid March 13 through March 31, 2020, for the employee retention credit).
7	Form 941, second quarter (202006) only: Add the figures from Line 5 and Line 6 together.
8	Form 941, second quarter (202006) only: Multiply the result on Line 7 by (decimal 0.50).
9	Add the figures from Line 4 and Line 8 (if any) together. This is the allowable total amount for Employee Retention Credit (non-refundable and refundable portions).
10	Enter taxable social security wages.
11	Enter taxable social security tips.
12	Add the entries in Line 10 and Line 11 together.
13	Multiply 12 by 6.2% (decimal 0.062).
14	# [REDACTED] #
15	# [REDACTED] #
16	# [REDACTED] #
17	Add the figures from Line 13, Line 14, Line 15, and Line 16 together.
18	Enter the amount of any QSB Research Credit.
19	Subtract the figure on Line 18 from the figure on Line 17. If

	the result is a negative figure, enter zero.
20	Enter the amount of non-refundable Credit for Qualified Sick and Family Leave Wages as previously reported or as determined in (11) of IRM 21.7.2.7.7.1, <i>Form 94XX — Credit for Qualified Sick and Family Leave Wages</i> .
21	Subtract the figure on Line 20 from the figure on Line 19. If the result is a negative figure, enter zero.
22	Enter the taxpayer's figure for non-refundable portion of Employee Retention Credit.
23	Enter the lesser (smaller) of the figure on Line 9 or Line 21 or Line 22. This is the allowable amount for non-refundable portion of Employee Retention Credit.
24	Subtract the amount on Line 23 from the amount on Line 9.
25	Enter the amount of refundable Employee Retention Credit claimed on Form 94XX.
26	Enter the lesser (smaller) of the figure on Line 24 or Line 25. This is the allowable amount for refundable portion of Employee Retention Credit.