

EMPLOYEE RETENTION CREDIT (ERC) & FAMILIES FIRST CORONAVIRUS RESPONSE ACT (FFCRA)

COMPLIANCE AUDIT PREPARATION CHECKLIST

The items below are recommended workpapers and supporting documents the IRS may request in its examination of an organization's qualification for: (1) the Employee Retention Credit (ERC); and/or (2) the tax credits for sick leave and family leave under the Families First Coronavirus Response Act (FFCRA). We recommend you retain the below documentation in a file in the event the credit application submitted is selected for audit. Some items below may not apply to your specific situation.

1. Forms 941 for the following quarters ended on:

- March 31, 2020
- June 30, 2020
- September 30, 2020
- December 31, 2020
- March 31, 2021
- June 30, 2021
- September 30, 2021
- December 31, 2021

2. Worksheet 1, or similar worksheet(s), used to compute the ERC included on the amended payroll tax returns (Form 941-X) for each of the quarters in 2020 and/or 2021 in which the ERC was claimed.

3. Payroll journals for the months of January through December of 2020, as well as January through September of 2021. For Recovery Startup Businesses, the last quarter of 2021 should also be retained.

4. A list of the employees who were paid sick and/or family leave in 2020 and/or 2021.

5. The dates in 2020 and 2021 these employees were paid sick and/or family leave.

6. The amounts paid to each employee for sick and/or family leave.

7. Statements that were required to be provided by employees to employers for COVID-19 related reasons, in which the employee requests leave and written support for that reason.

8. Statements that were required to be provided by employees to employers regarding an employee's inability to work, including by means of telework, for that reason.

9. Documentation to show how the eligible employer determined the amount of qualified sick and family leave wages paid to employees in 2020 and/or 2021 that qualified for the credit, including records of work, tele-work, and qualified sick and family leave.

10. Documentation to show how the eligible employer determined the amount of qualified health plan expenses in 2020 and/or 2021 that the employer allocated to wages (if applicable).
11. Copies of 2020 and 2021 Forms W-2 for the organization's employees.
12. Copies of the organization's tax returns (business, tax-exempt or otherwise) for 2020 and/or 2021 (for review only if available).
13. A list of employees who were paid wages for which the ERC was claimed in 2020 and 2021.
14. If applicable, provide a list and description of the relationship of any individuals related to a shareholder owning $\geq 50\%$ of the capital and profit interests in the entity that are employed by the company.
15. The amount of wages paid to each employee for which the ERC was claimed in 2020 and/or 2021.
16. For entities that are eligible due to the full or partial suspension of operations, documentation that operations were fully or partially suspended due to orders from an appropriate governmental authority limiting commerce, travel or group meetings (for commercial, social, religious or other purposes) due to COVID-19. Additionally, retain calculations of hours or revenue decline that meets the more than nominal standard.
17. For entities that are eligible due to a decline in gross receipts, documentation that the taxpayer experienced a significant decline in gross receipts during the calendar quarter for which the ERC was claimed in 2020 and/or 2021. Retain all computations of quarterly revenue for 2019, 2020 and 2021 to support ERC eligibility.
18. Documentation to show how the taxpayer determined the amount of qualified health plan expenses that the employer treated as eligible wages for the ERC in 2020 and/or 2021.
19. Documentation related to any PPP loans and related forgiveness, including what wages were included on the PPP loan applications and loan forgiveness applications.
20. A spreadsheet or breakdown of the organization's gross receipts for ERC purposes. Provide a reconciliation to the yearly gross receipts for the tax years 2019, 2020 and 2021 on either a monthly or quarterly basis.
21. An analysis or breakdown of how wages were allocated between the ERC and the PPP loans. Provide this analysis for the following quarters:
 - March 31, 2020
 - June 30, 2020
 - September 30, 2020
 - December 31, 2020
 - March 31, 2021
 - June 30, 2021
 - September 30, 2021
 - December 31, 2021 (for Recovery Startup Businesses)

22. Provide an analysis or schedule of any related organizations or entities that must be aggregated for the years 2020 and/or 2021 for purposes of determining the applicable provisions of the ERC.
23. For entities that were started after February 15, 2020, record of gross receipts for new entity and all other entities are required to be aggregated for 2020 and 2021. Annualized gross receipts should be \$1,000,000 or less.
24. For operations that began after February 15, 2020 and thus qualify as a Recovery Startup Business, retain documentation that supports that assertion of when operations began.

The items above were obtained from IRS guidance and other fact sheets on the ERC and credit for sick leave and family leave under the FFCRA.