Engage PEO Client Alert: ERTC

IRS Delays to Employee Retention Tax Credit Refunds

WHAT'S NEW: Small businesses throughout the country have reported significant delays in receiving the Employment Retention Tax Credit (ERTC) refund, which most companies applied for retroactively through Form 941-X, a paper form that the IRS processes manually. **The delay is part of a much larger problem the IRS is having with clearing out a backlog of 21 million unprocessed paper tax forms** because of the effects of COVID on the IRS workforce and existing problems with IRS technology, according to a report just issued to Congress. Further adding to the delay, large ERTC claims are being reviewed twice by the IRS before being issued.

WHAT IT MEANS: The IRS has reduced the backlog of ERTC Refund Forms 941-X from 440,000 at the beginning of the year to 215,000 as of last week. However, **the IRS still has a backlog of 900,000 paper business tax forms and the 941-X form for your refund is caught in this backlog**. While it may be a small consolation, you are not the only company experiencing these IRS delays.

If this wasn't enough, attempts to call the IRS to check on the progress of your ERTC claim often go unanswered – and even if the IRS does answer, they are not able to track down the paper filing, because it has yet to be imported into the IRS computer system. The IRS Taxpayer Advocate and the Treasury Inspector General have pointed out both of these problems. Still, the IRS refuses to invest in scanner technology to process paper forms and has not hired and trained more customer service representatives.

WHAT IS BEING DONE: This backlog has not gone unnoticed by Congress. More than 70 members of Congress have written the IRS Commissioner to demand action be taken to address the backlog. The IRS has assigned a 1,200-employee "surge team" to try and make inroads and is attempting to hire 10,000 additional employees to help clear out the backlog. Still, it is slow going.

NAPEO, the PEO industry association, continues to pound away on Congress and the IRS to put the necessary resources into clearing the backlog of 941-X forms. They are making progress and will not stop until this backlog is eliminated.

Engage will notify you of any updates to your tax credit as soon as we can.

If you would like further information about this issue, please see NAPEO's memo explaining why these credits are delayed or contact your Engage Account Manager.