Your Firm LLC

Changes to the ERC and Digital Asset Reporting

On November 15, 2021, President Biden signed the Infrastructure Investment and Jobs Act into law. While the bill focuses on improving roads, bridges, highways, and internet connections, it contains two provisions that may directly impact you and your business. In this video, we will cover changes to the employee retention tax credit and reporting requirements for cryptocurrency.

Employee Retention Credits

Under the CARES Act, businesses with up to 500 employees that experienced a decrease in gross receipts for a quarter in 2021 of 20% or more as compared to the same quarter in 2019 were eligible for the employee retention tax credit. Businesses could also qualify for the credit if their operations were partially or fully suspended by government order due to COVID-19. Qualified employers could claim a fully refundable tax credit of up to $7,000 for each employee per quarter.

The employee retention credit was originally scheduled to end on January 1, 2022. However, the infrastructure act terminates the ERC three months early, on October 1, 2021. The only exception is if the employer qualifies as a Recovery Startup Business, also known as the RSB. RSBs can still earn an employee retention tax credit up to $50,000 per quarter for the third and fourth quarters of 2021. To be considered an RSB, the business must have started operating after February 15, 2020, and have no more than $1 million in average annual gross receipts. So unless your business qualifies as an RSB, employee retention credits will not be available for the fourth quarter of 2021.

Digital Asset Reporting

The infrastructure act increases reporting requirements for digital asset brokers such as digital asset trading platforms and cryptocurrency exchanges. Brokers will now be required to report to the IRS the cost basis of digital asset transactions to non-brokers. A digital asset is any digital representation of value that is recorded on a cryptographically secured distributed ledger or any similar technology. Cryptocurrencies such as Bitcoin fall into this category and it is possible that NFTs will fall into the category too.

Additionally, under the act, cryptocurrency and digital assets will be treated as cash. Thus, individuals in a trade or business that receive more than $10,000 in a single transaction or in related transactions must report the transaction to the IRS. This will apply to returns filed on or after January 1, 2024.

These new requirements do not change the taxable amount of cryptocurrency transactions, only the reporting requirements. The reporting will help digital asset investors see just how much their investment gained or lost over the previous calendar year, but more importantly, will help the government to prevent money laundering and other illegal activity.

Next Steps

This document is meant to provide an overview of the tax-related provisions of the Infrastructure Investment and Jobs Act and is not a substitute for discussing the provisions with one of our expert advisors. If you would like to discuss how these provisions affect your unique situation, please contact our office.

About Your Firm LLC

We have hand-picked a team with tax, auditing, accounting, business and management advisory expertise in a multitude of fields, including healthcare, professional-services firms, commercial contractors, home builders, real estate companies, manufacturing and distribution companies, dealerships, non-profit organizations and pension funds.

We have the expertise and the resources to provide not only the critical services you need during these evolving economic times, but also, importantly, to build for the future. Our strategic alliances with professional organizations across the country allow us to bring our clients the talent and expertise of national firms with the high-touch service of a local firm. While we remain focused on the core services of tax, accounting and audit, we expand and offer you the business consulting needed to remain competitive. We believe the success of our clients is the greatest measure of our own.

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