



How does the CARES Act Impact Your Nonprofit

On March 27, 2020, Congress passed the CARES Act. This is a federal Coronavirus Relief Bill and many companies will benefit from opportunities included in this bill. The bill includes several areas of relief, but we expect the Payroll Protection Program to be the most relevant for nonprofits. This act is the 3rd in response to Coronavirus pandemic. The Coronavirus Preparedness and Response Supplemental Appropriations Act was enacted on March 6th and the Families First Coronavirus Response Act was enacted on March 18th.

I. Paycheck Protection Program (SBA Loan Program)

ACT NOW – loan applications are being accepted beginning on 4/3/2020.

The ultimate purpose of the Paycheck Protection Program is to have individuals continue to receive paychecks. The program is available to employers, both for-profit and non-profit, who continue to be open and those who have closed their doors. The program is based on a good-faith certification that there is a need for the loan based on current economic conditions. Employers with under 500 employees are eligible for this program. The program requires organizations to apply for an SBA loan which will later be forgiven if conditions are met related to keeping people employed, or in many cases, the rehiring of those that have been laid off.

How do I determine if I meet the 500 or fewer employee test?

- Each employee counts as 1, whether full-time or part-time. A monthly average is used when there are seasonal employees involved.

How much funding is available for my organization?

- The loan amount available is 2 ½ times your monthly payroll costs (based on an average of the 1-year period before the date on which the loan is made). For seasonal employers the average payments from February 15, 2019 (or March 1, 2019) – June 30, 2019 would be used. The loan could not exceed \$10,000,000.
 - Payroll costs include salaries, healthcare, retirement, and state taxes (do not included federal taxes), and independent contractors pro-rated for the period.

What expenses can you pay with the loan proceeds?

During the 8-week period following loan origination, the loan can pay for the following:

- Payroll costs
 - Salary (Limited to \$100,000 per employee annual),
 - Retirement,
 - Payroll taxes – state only
 - Group health care benefits including insurance premiums,
 - Sum of independent contractor payments, limited to each \$100,000, and pro-rated for the covered period.
 - The sum of payments of any compensation to or income of a sole proprietor or independent contractor that is a wage, commission, income, net earnings from self-employment, or similar compensation and that is in an amount that is not more than \$100,000 in 1 year, as prorated for the covered period. (The treasury defines this as: “For a sole proprietor or independent contractor: wages, commissions, income, or net earnings from self-employment, capped at \$100,000 on an annualized basis for each employee.”) Clarification on this topic is expected.
- Mortgage interest payments,
- Rent,
- Utilities,

- Interest on other debt incurred prior to the covered period

How much of the loan will be forgiven?

- If you maintain employment for 8 weeks after the loan origination date, the full loan may be forgiven.
- If you laid off people between February 15th and April 26th, you must hire them back by June 30th
- Likely only 25% of the loan costs related to non-payroll type expenses would be forgiven.

What are the terms of the loan when not forgiven in full?

- .5% interest
- 2 year period
- First 6 months of interest and principal are automatically deferred, interest will accrue during this period.

Are personal guarantees required?

- No

Are churches eligible even though they might not have an IRS determination letter?

- Yes, which is not typical.

When to act and what to do?

- **ACT NOW** – loan applications are beginning to be accepted on **4/3/2020**. The current available funds for this program are \$349 billion and it's expected that it may run out. The hope is that more would be allocated if this happens.
- Contact your local banker to see if they can provide these loans. There are many banks that do offer these services and currently an attempt to expand this pool is being made.
- Start putting your documentation together. Payroll documentation will be required. The following would be examples of payroll documentation:
 - 2019 IRS Quarterly 940, 941 or 944 payroll tax reports.
 - Payroll reports for the past 12 month (ending on your most recent payroll date) that shows:
 - Gross wages for each employee
 - Paid time off for each employee
 - Vacation pay for each employee
 - Family medical leave pay for each employee
 - State and local taxes assessed on employee compensation
 - 1099s for independent contractors for 2019
 - Documentation showing total health insurance premiums paid.
 - Document the sum of all retirement plan funding that was paid by the company. (401k, Simple IRA, SEP IRAs)
- Get a sample application at: <https://www.sba.gov/document/sba-form--paycheck-protection-program-ppp-sample-application-form>

II. Emergency Injury Disaster Loans and Emergency Grants – available to private nonprofits.

- There is no forgiveness for loans. The advance could be forgiven if the full loan was not received and in certain circumstances.
- Churches are not eligible
- \$10,000 3-day emergency advance can be applied for – this would be rolled up into other long-term programs if others were received. At ty
- Can be based only on credit school
- Requirement of inability to obtain credit elsewhere
- Waives personal guarantee up to \$200,000
- 2.75% rate for nonprofits

III. Mid-Sized Loan Program

- For employers with 500 –10,000 employees
- This program is in process to fill the gap for larger organization not eligible for other loans
- Used to retain 90% of workforce
- 2% rate
- No forgiveness

IV. Unemployment

- The waiting period for unemployment is waived and to be funded by the CARES Act.
- Unemployment is extended to 13 weeks, any excess is funded by the CARES Act.
- **Self-funded unemployment plans** will receive payment for 50% of their unemployment claims through the CARES Act. Unless states decide to cover the remaining 50%, the nonprofit will be required to cover that half.
- Rates for unemployment will be frozen.

V. Employee Retention Tax Credits

- A refundable payroll tax credit of up to \$5,000 per employee per quarter could be allowed if there was a 50% drop in revenue from 2019 to 2020 in the first quarter and if you experienced a full or partial shutdown.
- Not eligible for those using Payroll Protection Program

VI. Student Loans

- Student loans are allowed to go into forbearance through September 30, 2020. This means no payments need to be made and a 0% interest rate will be applied through September 30, 2020.

VII. Tax Deduction

- All Americans can take an above the line reduction to income for donations made – up to \$300 per individual for \$600 per couple in 2020. This is available to everyone, whether or not taxes are itemized.

See our website for helpful links on the resources page of our website

<https://ritzholman.com/resources/>

Ritz Holman LLP Waiver: this is a summary of information included in the CARES Act. It is not considered legal or financial advice.