THE CARES ACT & YOUR CHURCH

4 KEY PROVISIONS THAT CAN HELP DURING THE COVID-19 CRISIS

The Good Citizen Project

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The Coronavirus Aid, Relief, and Economic Security Act ("CARES" Act) was signed into law on March 27, 2020. Here are four key provisions relevant to church and ministry leaders:

KEY PROVISION #1
PAYROLL PROTECTION LOANS/GRANTS

- The CARES Act modifies section 7(a) of the Small Business Administration (SBA) loan program to allow **churches, schools and nonprofits** to qualify for such loans.
- No personal/corporate officer guarantees are required on these loans.
- No fees are required, loan payments can be deferred for six months to a year, the maximum interest rate is 4% and the loan term is 10 years.
- A portion or all of this loan will be forgiven if the loan is used to pay payroll costs and employee benefits, interest on mortgage obligations, interest on prior debt obligations, rent, and utilities. **In summary, if the loan amount is used for these purposes, this loan essentially transforms into a grant.**

HOW TO ANALYZE THIS PROGRAM FOR YOUR CHURCH

Step #1 Discuss With Your Bank

The SBA is working with local banks to administer this program, and loan funds are limited ($349 billion has been appropriated). We recommend contacting your bank or a participating bank as soon as possible.

Step #2 Calculate The Loan Amount

- The loan amount for most organizations will be 2.5 times their average monthly payroll cost for the year prior to the loan.
- **Payroll costs (for this loan calculation) include salaries and wages, paid leave, health benefits, retirement benefits, and state and local taxes.**
- **Payroll costs exclude federal payroll taxes, salaries in excess of $100,000 and leave benefits that qualify for reimbursement under other relief measures** (for example, reimbursement of payroll expenses for COVID-19 related leave). Also, note that housing allowances are probably not included in payroll costs.
- For example, if ABC church paid a total of $240,000 in qualifying payroll costs from March of 2019 to February of 2020 and averaged $20,000.00 ($240,000/12=$20,000) in payroll costs each month, the loan amount would be: **$20,000 x 2.5 = $50,000.00**.

Step #3 Consider the Conditions of the Program

- Participants must certify that current economic conditions caused by the COVID-19 crisis necessitate the loan application.
- Participants must certify that the loan amount will be used to fund payroll costs and employee benefits, interest on mortgage obligations, interest on prior debt obligations, rent, and utilities.
- **Currently, there is no explicit statement which prevents a loan participant from being considered a "recipient of federal funds."** Several faith-based organizations are currently seeking clarification on this issue. Review the loan paperwork carefully for such language and consult with your attorney if you have questions. **This is especially important for Christian educational institutions!**

Step #4 Calculate the Feasibility of Maintaining Full-Time Equivalents

- The purpose of this loan program is to assist organizations in maintaining their full-time equivalents ("FTEs"; note that two part-time employees working 20 hours each equal one FTE). If ministries do not maintain the 2019 level of FTEs, a portion of the loan must be repaid.
- For example, if ABC Church had 4 FTEs in 2019, obtains a loan under this program and then drops to 3 FTEs in 2020, ABC Church must repay 25% (1/4 = 25%) of the loan amount over the ten-year term. The remaining 75% (3 out of 4 FTEs remain) of the loan will be forgiven.

KEY PROVISION #2

CHANGES TO CHARITABLE DEDUCTIONS

Prior to the CARES Act, individual charitable deductions were limited to 60% of an individual's adjusted gross income. The CARES Act changed that provision and allows for deductions of up to 100% of an individual's adjusted gross income. Further, this act increases the deduction limit for corporations from 10% to 25%. Finally, the Cares Act provides for an above-the line deduction in the amount of $300 for tax year 2020. **The big takeaway from this change is that major donors may be inclined to give larger gifts in 2020.**

KEY PROVISION #3

PAYROLL DEFERMENT AND TAX CREDITS

The CARES Act allows churches and nonprofits to defer 50% of the employer's portion of payroll taxes attributable to 2020 until December 31, 2021, with the remaining 50% due on December 31, 2022. Also, ministries can take advantage of a payroll tax credit of up to $5,000.00 of social security tax liability per employee if particular conditions are met.

KEY PROVISION #4
UNEMPLOYMENT BENEFITS FOR MINISTRY WORKERS

The CARES Act also provides funding to states to reimburse nonprofits for up to half of their expenses related to unemployment benefits during 2020. Because many churches do not participate in unemployment programs, it is important to note that church employees that face unemployment due to coronavirus-related issues may be eligible for Disaster Unemployment Assistance.

NOTE/DISCLAIMER

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ABOUT THE GOOD CITIZEN PROJECT

The Good Citizen Project is an educational and legal ministry that equips Christians to be gospel-centered citizens in post-Christian America. Josh Hershberger, the Executive Director of the Project, is an attorney, minister and speaker. Josh represents churches and Christian ministries throughout much of the United States, is licensed to practice law in three states and several federal courts and routinely assists churches and ministries with legal and tax compliance questions. For more information, visit goodcitizen.us.