



## Cares Act 2020 summary (updated as April 6, 2020)

Changes to our previous memo are in blue to assist you. Regulations pertaining to this law are still being written and guidance is changing nearly every day. We will update you as often as we can.

Churches and Christian schools and preschools qualify for loans under this act (sometimes referred to as the *Paycheck Protection Program (PPP)*).

As soon as possible, calculate your payroll costs for calendar year 2019 ([previous guidelines were to calculate payroll from Mar 19 – Feb 20](#)). Include:

Salary or wages (you must cap each person's salary at \$100,000 (ie: if someone makes over \$100,000, only list as \$100,000)

Housing allowance ([further clarification is needed to determine if this is allowed, it is suggested to include it for now](#))

Health Insurance and Retirement benefits (paid by the church)

All allowances paid (phone, car, etc.) [Do not include mileage reimbursement](#).

State and Local taxes (paid by the church) ([this does not apply to most states](#))

Include contractors (1099) such as part-time musicians, etc. ([it is unclear who should be included – we still recommend including anyone who you prepared a 1099 for](#)). The updated rules are indicating that 1099s for services performed may not qualify. More clarification is needed.

Total the above for all twelve months, divide by 12 to get an average monthly payroll cost, then multiply by 2.5. This equals the amount of loan that you qualify for. (In other words, you can borrow 2 ½ months of payroll costs). For example, if your average monthly payroll costs as defined above were \$20,000, you could borrow \$20,000 x 2.5 - \$50,000. There is a maximum loan amount available of \$10 million per company.

I have created spreadsheet to help make this calculation. There is a copy of this spreadsheet ([updated 04/02/20](#)) on our website: [www.dsacpainc.com](http://www.dsacpainc.com). If you need help with these calculations, please let us know.

The money can be used to cover all payroll costs (salary expenses cannot exceed \$100,000 per employee), benefits, mortgage interest (not principal), rent, health insurance, utilities, and interest on any other loans incurred prior to the Act. [You will have eight weeks from the time your loan is approved to spend the money](#). [New SBA guidance require 75% of the loan must be used for payroll](#). [If you spend less than 75% on payroll, part of the loan will not be forgiven](#).

If you have no payroll (ie: small church plant), you cannot apply unless you have other payroll related costs listed above.

You also need to calculate the average number of full-time equivalents (FTE's) that you employed in 2019. (If you are a new organization you can use January 2020-February 2020). (The spreadsheet we created will also help with this calculation). The definition of an FTE: someone working 40 hours/week is considered full-time. At the end of the loan period, you will need to submit how many FTEs you paid with the money. The actual application is only asking for the number of employees (not FTE's). each bank is interpreting this differently and we encourage you to check with your bank to see how they want the number of employees reported. At the end of the loan, it is your local bank who will determine how much of the loan will be forgiven.

If you demonstrate that the loan was spent for the expenses listed above, and if your FTE's do not decrease compared to the prior year, then ~~94.7% of the total loan amount will be forgiven.~~ 100% of the loan will be forgiven. ~~The remaining 5.3% of the loan will be repaid over a 10-year period at 4% interest.~~ The SBA has changed this to a 2-year loan at 0.5% interest, with payments beginning after six months.

If your qualified expenses during the period are less than the loan or if your FTE's in 2020 are less than your FTE's in 2019, then you will have to repay a percentage of the loan.

Not all banks are setup to provide these loans, so you need to check to see if your bank does SBA loans. If they don't, you will need to find a local bank that does. Every bank will be inundated with requests, so the sooner you contact them to get in line, the sooner you will be able to get a loan (it is on a first come first serve basis). Banks will start accepting applications on Friday April 3, 2020. To add to the confusion, many banks are now creating their own application. Our advice is to work with your bank but expect reporting requirements for the application to vary from bank to bank.

Here's a link to the SBA to help find a lender:

<https://www.sba.gov/page/coronavirus-covid-19-small-business-guidance-loan-resources>

You can reduce payroll up to 25% (per employee) and still qualify for the loan. However, if you need to reduce payroll by more than 25% or if you must lay off employees, it will reduce the amount of the loan that is forgiven.

Since churches do not pay unemployment taxes, church employees typically do not qualify for unemployment benefits. However, until December 31, 2020, this law allows church employees, including ministers to qualify for unemployment benefits. The benefits differ state to state, and the bill increases the state benefit by \$600 per week (as *Pandemic Unemployment Assistance*) for up to four months. Of course, if you are able, it is better to continue to pay employees so that more of the *Paycheck Protection Program Loan* is forgiven. If you do not lay off employees, but reduce their pay, they are eligible for partial unemployment benefits.

Other benefits of the Act include:

1. Deferral of payroll taxes
  - a. The employer share of social security taxes (6.2%) can be deferred. You have two years to pay the deferred tax (50% by December 31, 2021 and 50% by December 31, 2022).

- b. This applies to “self-employed” ministers as well, but further guidance is needed.
  - c. **You cannot apply for the PPPL if you use this provision – we do not recommend using this option.**
2. Increase in charitable contributions to individuals and businesses during this period. There is not a limit in 2020 for individuals (previously the limit was 60% of adjusted gross income). Also, up to \$300 can be deducted when you file your 2020 return, even if you don’t itemize. Corporation deduction limits have increased from 10% to 25% of taxable income.
  3. If you are a self-employed minister or evangelist, the same loan calculations above apply to you. **It will be another week before you can apply for the PPPL. (April 10, 2020)**
  4. No collateral or personal guarantees required for the PPP loan.
  5. **In 2020 only, employers can pay \$5,250 toward employee’s school loans.**

Many churches are concerned that by participating in this loan, the SBA/government may try to attack their religious freedoms in the future. There is also concern that the SBA rules against discrimination may violate the churches position on marriage, etc. After initially issuing guidance that caused some confusion, on April 3, 2020 the SBA issued the “SBA Faith-Based FAQ Final” that clearly states that churches will not lose protections afforded them under the First Amendment and the Religious Freedom Restoration Act of 1993. You can view the entire document on our website.

#### **Economic Injury Disaster Loans:**

We are getting many questions regarding the immediate \$10,000 that is available as part of the Economic Injury Disaster Loan program. It is our understanding that while churches qualify, they will have to repay the \$10,000 portion of the EIDL if they also participate in the PPPL program. While this appears to be an option for churches that need help with operational expenses (you can’t use the EIDL funds and the PPP funds for the same expenses), it is a loan (the PPP is also a loan, but it will turn into a grant if the funds are spent on approved expenses), and also requires collateral. There are no payments for one year, non-profits get a rate of 2.75% and the loan is amortized over 30 years. You must go directly through the SBA to apply for the EIDL

Please also be aware that there are already companies out there that want to charge a fee for filing the loan application. Please be careful to avoid any scams or overpriced services. Also adding to the confusion - there are three different programs currently available but be aware that the bill approved last week (number II) created SBA loans for disaster relief that churches do not qualify for.

As we continue to learn more, and new guidance is issued, we will update this information. For updates, you can visit [www.dsacpainc.com](http://www.dsacpainc.com)

Regards,

Delano Sherley, CPA

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