Nonprofit Guide to the Coronavirus Aid, Relief, and Economic Security Act (the CARES Act)

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Big Picture

- The CARES Act became law on March 27, 2020, and is designed to assist individuals and businesses affected by the Coronavirus, including the nonprofit sector
  - [Click here](#) for a summary of loans available to nonprofits

- The CARES Act provides roughly $2.2 trillion dollars in economic aid, but the impact is closer to $7 trillion based on direct relief, grants, tax credits, and government-supported loans
Paycheck Protection Program (PPP)

- PPP provides $349 billion in federally-guaranteed loans, provided on a first come first serve basis

- designed to enable employers to maintain payroll during pandemic

- PPP loans are potentially fully forgivable

- Available starting tomorrow, April 3. Click here for a list of participating lenders, and click here for a sample application
PPP: Who Can Apply?

• Available to any non profit organization that is tax exempt under section 501(c)(3) or 501(c)(19)

  – Operating on February 15, 2020
  – Not more than 500 full, part time, or other employees
    • Includes employees of affiliates
    • Volunteers are not employees

  – non profits not tax exempt under 501(c)(3) or veterans organizations under 501(c)(19) are not eligible
PPP: Loan Terms

- Borrower may receive only one PPP loan
  - No collateral or guarantee requirement
  - Interest may not exceed 4%
  - Ten year maximum term
  - Full deferment on payment for at least first six months but no more than one year
  - Fully guaranteed by the SBA through December 31, 2020
PPP: Loan Amount

- 2.5 times borrowers average monthly payroll costs during the one-year period before the loan; maximum of $10 million

- Alternative calculation period for seasonal and new businesses

Payroll Costs Include:

- Salary, wage, compensation, up to $100K per employee
- Vacation, parental, family medical, or sick leave
- Severance payments
- Group health care benefits
- Payment of retirement benefits
- State and local taxes assessed on compensation, excluding federal income, payroll, and FICA tax
PPP: Permitted Use

• PPP loan proceeds may only be used for:

  – Payroll Costs
  – Employer group health care benefits during paid sick, medical, or family leave (including insurance premiums)
  – **interest** on mortgage obligations
  – Rent
  – Utilities
  – **interest** on other debt incurred before February 15, 2020
PPP: Loan Forgiveness

• The amount of PPP loan that is forgivable is the sum of the payroll costs, mortgage and other debt interest payment, rent, and utilities paid by the borrower during the **8-week period beginning** from the loan origination date.
PPP: Restrictions On Loan Forgiveness

• Amount forgiven will be reduced proportionally by any reduction in **full time** employees when compared to 2019 or early 2020

• Amount forgiven will be reduced by any reduction in pay of an employee beyond 25 percent of his or her compensation in the most recent full quarter
  – This only applies to employees earning less than $100,000

• Grace period to rehire or raise salaries by June 30
PPP: Relation to Other Relief Provisions

- PPP borrowers are ineligible for the employee retention credit and deferral of payroll tax (detailed below)

- PPP may also apply for and receive an economic injury disaster loan ("EIDL") provided the EIDL is not used for the same purposes as the PPP loan
PPP: How to Prepare

- Get in touch with your bank
- Compile and calculate average monthly payroll costs for 2019
- Compile entity documents including Articles of Incorporation or Organization, Bylaws and Partnership Agreements as applicable; have your 501(c) certification ready
EIDL

• CARES Act expands the SBA’s long-standing Economic Injury Disaster Loan program by providing $562 million in additional funding

• The EIDL program is currently in operation through the SBA; [Click here](#) for the EIDL application
EIDL: Who Can Apply?

• Any private non-profit is eligible, including entities exempt under section 501(c), including trade associations, advocacy organizations, unions and social clubs
  – EIDLs are available to a much broader set of nonprofits than those eligible under the PPP

• Must have sustained economic injury
EIDL: Loan Terms and Amount

- Lender is SBA
- Long-term loans of up to 30 years, EIDL Loans are **not eligible for forgiveness**
- Loan amount determined by actual economic injury, up to $2 million; personal guarantees not required for loans less than $200,000
- Interest rate is 2.75% and payments deferred for one year
EIDL: Grants

• Applicants for an EIDL can receive a $10,000 emergency grant within three days of application
  – Nonprofits can use the advance for any allowable EIDL purpose

• No obligation to repay the grant
  – However, if you are able to secure a PPP loan, the $10,000 grant will be subtracted from the forgiveness amount
EIDL: Uses

• EIDL funds can be used for the following purposes:
  – providing sick leave to employees unable to work
  – maintaining payroll
  – meeting increased costs to obtain materials due to interrupted supply chains
  – making rent or mortgage payments
  – repaying other obligations that cannot be met

• But if you get a PPP loan, EIDL funds cannot be used for the same purpose as the PPP loan
Employee Payroll Tax Credit

- The CARES Act provides “tax-exempt organizations”, with an employee retention payroll tax credit
- All of the tax-exempt 501(c) organizational types are eligible
  - must have been fully or partially suspended or experienced a significant decline in gross receipts
  - Not eligible if business received PPP loan
Employee Payroll Tax Credit: Amount

• The credit is a refundable payroll tax credit equal to 50% of wages for each employee, up to a cap of $5,000 per employee

• Qualifying wages are based on the average number of employees in 2019
  – qualifying wages do not include wages counted for purposes of the paid sick leave and paid family leave payroll tax credits
  – For employers with 100 or fewer employees, all wages are qualifying
Donor Changes

• For donors that take the standard deduction, they can claim an "above-the-line" deduction of up to $300 for cash donations to charity
  – Only contributions actually made in 2020

• CARES Act eliminates the Code § 170 percentage limitations on most cash gifts to public charities
  – Prior to this, contributions of cash to a public charity were limited to 60% of adjusted gross income
Questions?