



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

Sarah Strunk & James Lawrence

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?

