

CARES Act Impact on Peaks Churches

NOTE: This is a summary of the CARES Act as currently understood, without any agency guidelines.

There are four provisions of the CARES act that will have a direct effect on Peaks churches. These areas are:

1. Cash Rebates
2. Changes to the tax code for charitable cash contributions
3. Payroll tax credits and deferrals
4. Small Business loans

Cash Rebates

In the next few weeks, the federal government will be sending out cash rebate checks to all Americans. The checks are for \$1,200 for individuals (\$2,400 for married) and additional \$500 for each dependent child in a family (for example a family consisting of 2 adults and 2 dependent children will receive \$3,400).

This money will not be taxed (it will be treated like a tax credit). Eligible recipients include persons with no earned income (such as retirees that receive social security payments). The average recipient will not be required to do anything (no forms, etc.) as the Treasury department and the IRS will be coordinating their databases so the funds will be automatically deposited or checks issued.

Charitable Cash Contributions

The tax code has been amended for 2020 for charitable cash contributions. An individual that does not itemize deductions will be allowed up to a \$300 tax credit for charitable cash contributions. Individuals that itemize deductions can claim a charitable donation allowance of up to 100% of their adjusted gross income (AGI). These changes are only for tax year 2020 and the contributions must be made by December 31, 2020.

Payroll Tax Credits

1. Employers may delay payment of the Social Security tax (6.2%) beginning March 27, 2020 until December 31, 2020. This is just a deferral, the taxes will still have to be paid to the government in the following two years. The employee portion of the tax must be remitted on time for 2020. This deferral also applies to ministers (as self employed) and the SECA tax paid. Ministers may defer the employer portion (6.2%) but must pay the employee portion.
2. Employers can receive a refundable credit against applicable employment taxes of up to \$5,000 per employee in 2020. The credit applies if the employer fully or partially suspends operations due to an order from a government authority or has a decline in revenue for any calendar quarter in 2020 of 50% or more as compared to the same quarter last year. All qualifying wages can be applied to the credit regardless of whether the employees are working or not. Qualifying wages would include salary, qualified health plan expenses (excluded from an employee's gross income). Minister housing allowance would not be included as it is not included as Wages by the IRS.

Employers are not allowed to take the Payroll tax credit if a Paycheck Protection Program loan is received.

Paycheck Protection Program

The CARES Act has \$349 billion for loans under the Paycheck Protection Program (PPP). These loans are designed for employers with 500 or less employees to prevent workers from losing their jobs and small businesses from failing due to economic uncertainty of COVID 19.

Lenders will consider if the borrower was operational on February 15th and if the borrower was paying salaries and payroll taxes on independent contractors at that time. The maximum available to an employee is 2.5 times the average monthly payroll costs over the year prior to making the loan (payroll cost excludes any employee with compensation above \$100,000 annually). See sample calculation at the end of the document.

Payroll costs include wages, payments for vacation and sick leave, group health care benefits, and retirement benefits, as well as compensation to an independent contractor.

A. Eligibility

Churches are eligible for these loans provided that the loan is needed due to economic conditions associated with COVID 19 and the proceeds are used for the following four specific expenses:

1. Payroll costs
2. Mortgage interest and rent payments
3. Utilities
4. Interest on debt that existed on February 15, 2020

B. Terms of Loan

1. The PPP loans are forgiven to the extent that the loan proceeds are used for the specific expenses during the eight week period after the loan is made. The amount forgiven may be reduced if the employer does not maintain employees (and hours worked) prior to February 15 2020. (Declines in work force between February 15 and April 26, 2020 do not apply).
2. PPP loans will have a maximum interest rate of 4% and maturity date of ten years. Payments may be deferred for 6-12 months.
3. PPP loans do not have collateral or personal guarantee requirements.
4. Loans must be applied for by June 30, 2020.

C. Church loan approval

These loans do not require collateral or personal guaranty. The Presbytery believes that under this extraordinary situation, the session may approve the loan request.

D. Supporting Loan Documentation

1. Financial Statements for year end 2019 and first quarter of 2020
2. 941 quarterly tax filing statements for 2019
3. Board of Pension invoices for 2019
4. SBA approved application-available online at <https://www.sba.gov/funding-programs/loans/coronavirus-relief-options> or contact your local bank.

Banks will be limited to the number of applications that can be filed in a day, **so file early!**

Sample Calculation for a PPP Loan

Average Monthly Payroll Costs for 2019 includes:

<u>Type of Expense</u>	<u>Yearly Amount</u>	<u>Monthly Amount</u>
Wages	\$200,000	\$200,000/12=\$16,666
Group Health Insurance (Board of Pensions @ 36%) (25% medical and 11% retirement)	\$ 72,000	\$ 72,000/12=\$ 6,000
Total Monthly Payroll Costs		\$22,666
Loan Maximum Request (2.5 times Monthly Payroll)		\$22,666*2.5= \$56,665

Actual Expenses for 8 week period after loan is made:

Wages Paid	\$ 32,000
Group Health Insurance BOP 25% medical & 11% retirement	\$ 11,520
Utilities Paid (electricity, gas, water, phone & internet)	\$ 2,500
Mortgage Interest	<u>\$ 1,200</u>
Total Expenses Paid-Amount of Loan Forgiven	\$47,220
Total Loan	\$56,665
Less: Amount Forgiven	<u>47,220</u>
Loan amount to be repaid	\$ 9,445

Note:

1. The loan to be repaid would be a 10 year loan at a maximum of 4% interest rate.
2. A lesser amount can be borrowed i.e. if \$45,000 is borrowed then the entire loan is forgiven