

Q&A on CARES Act and Churches

The following is an excerpt from an article from the Southern Baptist Convention that gives information on benefits that churches can seek from the recent Federal bill. The original story, which includes several Q&As for individual pastors as well, can be found at: <http://www.baptistpress.com/54550/qa-how-churches-pastors-are-eligible-for-relief-in-stimulus-package>

At the end of this document are additional links to resources for employers. You will see a disclaimer below that states that this does not take the place of professional guidance; the same goes for information provided throughout. Please follow up with the relevant institution (ie, https://www.edd.ca.gov/about_edd/coronavirus-2019.htm for the Employment Development Department of the State of California for Unemployment Insurance, or your bank if it is an SBA-approved lender for the Payroll Protection loan), and/or your CPA.

Q&A: How churches, pastors are eligible for relief in stimulus package

by GuideStone staff

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IV. Questions and Answers concerning federal assistance available to churches and ministries.

I have heard there may be federal financial assistance available to churches and ministries. Is this true?

Yes, you may consider several options made available to your church or ministry by the COVID Phase III Stimulus Package to help your church or ministry through this difficult time.

What options are available?

The Stimulus package makes available several forms of relief potentially benefitting churches and ministries. These include payroll tax credits, tax deferrals, encouraging charitable contributions and small business loans.

What is the payroll tax credit?

The Stimulus provides a refundable payroll tax credit for 50 percent of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose 1) operations were fully or partially suspended due to a COVID-19-related shutdown order, or 2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.

How is the credit calculated?

For eligible employers with 100 or fewer full-time employees, all employee wages qualify for the credit, whether the employer is open for business or subject to a shut-down order. The credit is based on qualified wages paid to the employee. For employers with greater than 100 full-time employees, qualified wages are wages paid to employees when they are not providing services due to the COVID-19-related circumstances described above. The credit is provided for the first \$10,000 of compensation, including health benefits, paid to an eligible employee. The credit is provided for wages paid or incurred from March 13, 2020, through December 31, 2020.

What tax deferrals are available?

The Stimulus package allows employers and self-employed individuals (which should include pastors for this purpose) to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees or the self-employed person (pastors are treated as self-employed and pay SECA [Self Employed Contributions Act] taxes). Employers generally are responsible for paying a 6.2 percent Social Security tax on employee wages. The provision requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. Further guidance will be needed to determine how tax deferrals may impact pastors paying SECA taxes.

How does the law encourage charitable contributions?

The Stimulus package allows charitable deductions of up to \$300 to churches and charitable organizations in 2020 regardless of whether donors itemize their deductions or not. The law also increases the amount of deductions for charitable contributions by individuals who itemize as well as corporations. For individuals, the 50 percent of adjusted gross income ceiling is suspended for 2020. For corporations, the 10 percent ceiling is raised to 25 percent of taxable income. This provision also raises the ceiling on deductions for contributions of food inventory from 15 percent to 25 percent.

Why are small business loans being made available in the Stimulus package?

The purpose of these loans is to assist small businesses in keeping workers paid and employed during the pandemic. These loans are designed to give employers an incentive and provide the ability to keep their employees instead of laying them off and shutting down their businesses. Tax-exempt entities are specifically recognized as eligible to apply for these loans that are guaranteed by the federal government.

How do the small business loans work for churches and ministries?

Churches and ministry organizations that are exempt from tax under Section 501(c)(3) of the Tax Code and that have fewer than 500 employees at one location and self-employed individuals, individuals operating as a sole proprietorship or individuals operating as an independent contractor, may apply for a Paycheck Protection Loan to cover payroll and related employee expenses for the period February 15 through June 30, 2020, to help them sustain their ministries.

How can the loan proceeds be used?

The loan proceeds may be used to pay payroll costs, group health insurance benefits, paid sick leave, medical and insurance premiums, mortgage interest payments, rent payments, utilities or interest on other loans outstanding at the time of the pandemic.

What costs are considered payroll costs?

Salary or wages, payments of a cash tip, vacation, parental, family, medical, or sick leave, health benefits, retirement benefits, state and local taxes. Note, however, that salary expenses above \$100,000 per employee are not eligible for consideration as payroll costs and loan proceeds may not be used to pay salaries above \$100,000 per employee.

How much can a church or ministry borrow?

The amount that may be borrowed is the total average monthly payroll costs for the preceding 12 months (March 2019 through February 2020) multiplied by a factor of 2.5. For example, if the average payroll costs for the preceding twelve months were \$20,000, the maximum amount of the loan would be \$20,000 times 2.5 for a total of \$50,000. The maximum amount available for a Payroll Protection Loan is \$10,000,000.

Can a self-employed pastor apply for a Payroll Protection Loan?

The Stimulus package allows self-employed individuals to apply for these loans. Under certain circumstances, pastors are considered self-employed and should be eligible to apply for a payroll protection loan under the same terms and conditions as other loan applicants. For example, if a pastor's average monthly salary for the preceding twelve months was \$5,000 then the pastor should be able to apply for a loan in the amount of \$12,500.

How soon must the church, ministry or pastor repay the loan?

Payroll Protection Loans may include a term of up to 10 years from the date of application.

What interest rate will these Payroll Protection Loans bear?

The maximum interest rate for these loans is 4 percent per year.

Is the church, ministry or pastor required to pledge collateral for the loan, or will another party have to guarantee repayment?

No. Further, the loans are non-recourse to the borrower with the exception that if loan proceeds are used for an unauthorized purpose, the then loan may be collected from the borrower.

May payments under the loan be deferred?

Yes, for a period not less than six months but not to exceed more than one year from the date of the loan.

May all or part of the Payroll Protection Loan be forgiven?

Yes, the program is designed to encourage employers to retain employees and loan forgiveness is a key feature of these loans. A ministry under a covered loan can have all or a portion of the principal of the loan forgiven in an amount equal to payroll costs, mortgage interest, rent, or utility costs during the eight-week period following the origination of the loan. The forgiven amount, however, may be reduced based on a formula that compares the ministry's employment in prior pre-COVID periods with the number of employees and each employee's wage or salary in the eight-week period following the origination of the loan.

Who is responsible for administering this program?

The loan program will be administered by the Small Business Administration (SBA) under its existing Section 7(a) business loan program. Certain requirements associated with typical SBA loans, such as guarantees, collateral, and "credit available elsewhere" underwriting, have been relaxed or eliminated.

How can a church, ministry or pastor apply for a Payroll Protection Loan?

If you choose to pursue a Payroll Protection Loan, you will need to apply through an approved SBA lender, which includes most local banks. The approved SBA lender will assist you in completing the application and providing the required documentation for the loan. The loan documentation requirements and other traditional requirements to obtain a small business loan are substantially relaxed under this loan program.

Other Resources

Unemployment Insurance: The CARES Act enables states to include employers who have not participated in State Unemployment Insurance (SUI), but it is not yet clear how the State of California is implementing it. There are two benefits that may be worth pursuing if needed:

- Unemployment Insurance Claims: The EDD website does not yet have specific instructions for employees who have not participated in SUI, but there is a “News” page which lists the latest press releases at <https://www.edd.ca.gov/newsroom.htm>. They also have a Coronavirus-specific page at https://www.edd.ca.gov/about_edd/coronavirus-2019.htm.
- EDD has a Work Sharing Program which may help if staff members remain on staff but at reduced work hours. The employees should continue to receive their usual health benefits. Go to https://www.edd.ca.gov/Unemployment/Work_Sharing_Program.htm for more information.

SBA Loans: It is not yet clear how to apply for the SBA loans (aka Payroll Protection Loan, described above), but the application process will go through SBA banks. It looks like some of the most popular banks for SBA loans include Wells Fargo, Chase, and Hanmi Bank. The loans will be processed as long until the funds run out, so seeking a loan would be better sooner than later.

The SBA loans will require documentation, so even before the application process gets developed, you can prepare by gathering the following:

- You can ensure your 2019 Financial Statements are complete and your first-quarter financial statements are prepared as soon as possible.
- Contact your SBA-approved bank and let them know you would like to apply. Ask them to immediately provide you loan documentation requirements once published by the SBA.
- Consult your church bylaws to determine how loans are to be approved by your church corporation. Book of Order requirements regarding encumbrances relate to real property, so it is likely that either the session or the congregation as members of the corporation would be the decision-making body for a loan. For information on conducting online meetings, go to:
 - English: https://oga.pcusa.org/site_media/media/uploads/oga/pdf/32420_final_edited_advisory_opinion_church_in_an_emergency_or_pandemic.pdf (or
 - Spanish: https://oga.pcusa.org/site_media/media/uploads/oga/pdf/advisory_opinion_church_in_an_emergency_or_pandemic_es_nt.pdf or
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