COVID-19: What You Need to Know About the CARES Act

Exempt Organization Update

April 3, 2020

TODAY’S PRESENTERS

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HEADLINES FOR TODAY’S TALK – CARES ACT

1. Charitable contribution changes
2. Employer tax changes
3. Paycheck Protection Program

TAX DAY IS POSTPONED, BUT NOT FOR FORM 990 RETURNS DUE MAY 15TH!
CHARITABLE CONTRIBUTIONS

- C Corporations
  - Limitation increased from 10% to 25%
- Individuals
  - 100% AGI limitation for CASH contributions to public charities
  - $300 “above the line” deduction
- RMD Waiver – Qualified Charitable Distribution impact?
EMPLOYER TAX PROVISIONS

EMPLOYEE RETENTION CREDIT (“ERC”)

- Refundable against 6.2% employer portion of Social Security tax
- New payroll tax credit for employers carrying on a trade or business in 2020 that pay wages when:
  - Their business operations are fully or partially suspended due to an order from and “appropriate government authority”, OR
  - Their gross receipts experienced a significant decline (50% or greater) for a quarter as compared to the same quarter in 2019
- 501(c)(3) organizations qualify!
- Employers taking a loan under the Paycheck Protection Program are NOT eligible.
**ERC CALCULATION**

- 50% of “qualified wages” (including group health insurance) of each employee, limited to $10,000, paid March 13th - December 31st
- “Qualified wages” depends on employer size

  100 or fewer average employees in 2019 - all employee wages are eligible (up to $10,000 per employee) regardless of whether the employee is furloughed.

  More than 100 average number of full-time employees in 2019 - only the wages of affected employees who are not working are eligible.

**DELAY IN PAYMENT OF SOCIAL SECURITY TAX**

- Employers may defer the 6.2% employer portion of Social Security tax from the date of enactment through the end of 2020
  - 50% due 12/31/2021
  - 50% due 12/31/2022
- Employer’s share of Medicare (1.45%) and employee’s share of Social Security and Medicare are not allowed in the deferral
- Employers taking a loan under the Paycheck Protection Program do not qualify.
PAYCHECK PROTECTION PROGRAM “PPP”

• Authorizes $349 billion in loans backed by SBA in loans intended to cover payroll, benefits, mortgage interest, rent, and utilities
• How much can I borrow?
  – Up to 2.5 times the average total monthly payroll costs incurred in the year prior to the loan date
  – Special rules if not operational in 2019 or if seasonal
  – Loan cannot exceed $10 million
• Where do I go to borrow this money?
  – Banks, credit unions, and lenders issue the loans
• Who is eligible?
  – Must have fewer than 500 employees
  – Section 501(c) exempt organizations included
• Terms and conditions
  – Interest rate cannot exceed 1%
  – Payments deferred 6 months to 1 year
  – Loans have a 2-year term
PAYCHECK PROTECTION PROGRAM (PPP) CONTINUED

• Can be forgiven and turned into a non-taxable grant if:
  − Used for an approved purpose within 8 weeks of loan origination
  − Average size of full-time workforce maintained

• Forgiveness equal to the sum of:
  − Payroll (up to $100,000 per person)
  − Mortgage interest
  − Rent obligations
  − Utilities

• Forgiveness reduction if:
  − Average full-time equivalent decreases
  − For any employee who did not earn during any period in 2019 wages at an annualized rate more than $100,000, the amount of ANY reduction in wages that is greater than 25% compared to their most recent full quarter.
  − Special rule for bringing back employees
QUESTIONS?