



MEMORANDUM

TO: The Council of Bishops of the International Pentecostal Holiness Church

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RE: Coronavirus Aid, Relief, and Economic Security Act of 2020: Relief for Small Businesses and Non-Profits

Below is a bullet point summary of portions of the Coronavirus Aid, Relief, and Economic Security Act of 2020, or CARES Act. The CARES Act was passed and signed into law just last Friday, March 27, 2020, and will require additional rules and regulations to be fully implemented. The CARES Act amends the Small Business Act by adding a new Section 7(a)(36) describing the Paycheck Protection Program, and provides for a Charitable Giving Incentive. These provisions are summarized below and are based on an initial review of the nearly 900 page bill. As the rules and regulations roll out, and more details on the processes become available, our understanding of these provisions may change.

I. Charitable Giving Incentive.

- The CARES Act includes a new **“above the line” tax deduction** (meaning it is universal and tax payers are **not required to itemize** to take advantage of it) for charitable contributions up to \$300.
- The CARES Act also lifts the cap on annual contributions for **individual itemizers** from 60% to 100% of Adjusted Gross Income (“AGI”) and raises the limit for corporations from 10% to 25% of AGI.
- These are all “future benefits” in that they apply to 2020 contributions and would be reflected on next year’s tax returns.

Reminder: This is a general summary (not tax advice) and taxpayers should be reminded to consult their own tax advisors for more information as to how this might apply to them.

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II. Paycheck Protection Program.

A. Overview.

- This SBA program will provide to **eligible businesses** a loan equivalent to up to **ten weeks** of salary for your employees. The idea is that you will be able to keep the relationship with your employees through this difficult time and they will still be on board when the restrictions and shut down are lifted, allowing us to return to more normal operations as quickly as possible.
- Churches are generally eligible for **this** program.
- Can be forgiven, or turned into a grant, if you keep all of your employees on, use the funds for approved costs and meet some other minimal requirements.

B. Eligible borrowers.

- The organization must have been in operation on February 15, 2020;
- The organization must have paid employee salaries and payroll taxes or paid independent contractors;
- The organization must have been substantially impacted by COVID-19;
- The organization must have 500 or fewer employees (including independent contractors and 1099 employees)

Special Note: Under the Act, a nonprofit organization is any organization described in Section 501(c)(3) of the Internal Revenue Code and that is exempt from Section 501(a) of the Internal Revenue Code.

C. Eligible Lenders.

- Banks already authorized as a lender under the SBA
- Banks designated by United States Treasury Department

D. Use of Funds.

- Payroll (salaries, wages, and tips).
- Retirement benefits.
- Health insurance premiums.
- Vacation, parental, family, medical, or sick leave, but *not* family and sick leave specifically provided for under the Families First Coronavirus Response Act.

- Mortgage payments.
- Rent.
- Utility costs.

Special Note: The compensation of an individual employee in excess of an annual salary of **\$100,000** will not count toward the payroll costs.

For churches, this is most likely to occur with the salary of an organization's Senior Pastor or Executive Director.

Unfortunately, though not surprisingly, the CARES Act doesn't specifically address a minister's housing allowance at this point. Talk to local bank or lender about housing allowances.

Special Note 2: The loan amount is based on payroll costs from the **1-year period prior** to the application date.

E. **Forgiveness.**

- IF, during the eight-week period following the origination of the Paycheck Protection loan, you maintain your workforce, **maintain your payroll, do not reduce employee benefits and wages by more than 25%**, and use the funds for approved costs / expenses, some or all of the loan may be converted to a grant and not require repayment.
- You must apply for loan forgiveness upon expiration of the eight-week period. Talk to your local lender about the application process.

F. **Unique Provisions.**

There are some marked differences between a typical SBA loan and a loan originated through the PPP. In a PPP loan authorized by the CARES Act:

- No personal guaranty is required.
- No pledged collateral is required.
- No prepayment penalty.
- No requirement that the borrower be unable to find credit elsewhere.

III. Next Steps.

The CARES Act only contains general outlines for this program, but it set to go live on Friday, April 3, 2020. To prepare, here are some steps your organization can take right away:

(1) **Communicate with your leadership team** (finance committee, board of directors, elders, etc.), remotely of course, to discuss whether your church or other organization need or would benefit from for a Paycheck Protection Loan.

- Be sure to follow the requirements in your bylaws and other governing documents regarding a vote authorizing the representatives of the organization to take out the loan on the organization's behalf.

(2) **Contact your local bank** or other lender to let them know you are interested in applying for the new Paycheck Protection Loan. It's ideal if this is a bank or other lender with which you already have an account. Your church's ongoing relationship means they are more likely to follow up with you when the loan applications become available. It will also make depositing the loan into your account quicker and easier. There should not be any fees, but be sure to ask.

(3) **Gather your 2019 payroll documents** and calculate the amount of the Paycheck Protection Loan your organization will qualify for and plan how you might use any funds. Generally, you will be eligible for up to 2 and 1/2 months of your average 2019 monthly payroll costs.

- Organizations receiving a Paycheck Protection Loan need to plan to retain as much of their staff as possible. Forgiveness of the loan is tied to the number of full-time employees your church keeps on staff.
- The SBA's Section 7(a) **Loan Application Checklist** can be found at: <https://www.sba.gov/loans-grants/see-what-sba-offers/sba-loan-programs/general-small-business-loans-7a/7a-loan-application-checklist%20>

Now is the time for church leaders to pause, pray, and plan about how to be good stewards of their financial resources, including any SBA funds that you might receive from the Paycheck Protection Program, under the new universal charitable deduction or generally from your congregation. If you are having difficulty finding a lender to assist you with your SBA application, please contact us our offices and we will assist you in finding alternatives.

Please note that this legislation is new and additional regulations, guidance and rules, which may provide additional clarity of these benefits, are expected and may change the way we believe these programs will function as of today. If you have any questions about any of the recent legislation related to the Coronavirus / Covid-19, including the programs above, please contact us. We are here to help.

