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CARES Act for Churches: The Paycheck Protection Program (PPP)
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This summary provides basic information from the 880-page CARES Act, specifically §1102 and §1106, and other sources. It is not comprehensive, nor should it be taken as professional advice.

What is the *PPP*?

The Paycheck Protection Program is a provision of the CARES Act (§1102) passed by Congress and signed by the President on March 27, 2020, that extends Small Business Administration (SBA) working capital loans to small businesses, independent contractors, and not-for-profit organizations (including churches). The SBA-guaranteed bank loans enable borrowers to continue paying their people, their utility bills, rent and the interest they owe on secured debt. Loan applications are currently being processed by banks on behalf of all eligible organizations, except independent contractors who must wait until April 10.

Accompanying §1106 of the CARES Act makes generous provision for the forgiveness of part or all of an entity's PPP loan after eight weeks of documented use of the funds while maintaining its contingent of employees.

A few more details regarding PPP loans:

- no collateral or personal guarantee required
- one percent interest
- no payments for at least six months
- two-page application
- churches' religious liberty has been specifically protected from standard SBA anti-discrimination requirements (e.g., Equal Employment Opportunity prohibition of discrimination based on religion) (SBA, 13 CFR Part 120, III. 5)

Why has the *PPP* been established?

The Paycheck Protection Program's approximately $350 billion appropriation, it is hoped, will help sustain small enterprises and their workers who may have nowhere else to turn for cash other than to run to their bank and investment accounts and empty them out. By keeping people employed and utility bills, rent and secured loans paid, consumer and producer spending may help to avoid a deep recession.

How does our church participate in the *PPP*?

We recommend the following steps be taken to borrow PPP funds and receive loan forgiveness.

1. Contact your bank(s) to confirm that it is an SBA lender, to communicate your potential interest, and to receive information regarding its application process.

2. Study the provisions of the PPP and, if satisfied, pursue approval as outlined in your church bylaws, including a written corporate resolution authorizing a church officer(s) to borrow SBA funds.

3. Calculate and document your loan amount based on monthly average "covered payroll" in 2019, times 2.5 (i.e., 2½ months of funds used to compensate your employees in 2019).
    a. 2019 gross wages (including housing allowances), plus group health care and retirement plan benefits
    b. Suggested documentation may include
        i. Annual Forms W-2 and W-3, and quarterly Forms 941
        ii. Payroll summaries from your church's accounting software or payroll service
        iii. Detailed transaction histories of group health care and retirement plan disbursements per your accounting software

4. Estimate your *expected forgiveness amount* (a term used in the CARES Act). This can be an invaluable aid in your decision process whether to participate in the PPP.
    a. Estimate your "covered payroll" costs for the eight weeks immediately after the loan date
    b. Estimate your utility bills ("a service for the distribution of electricity, gas, water, transportation, telephone, or internet access for which service began before February 15, 2020" (CARES Act §1106(a)(5)) for the eight weeks immediately after the loan date
    c. Estimate your interest payments on secured debt and rent payments for the eight weeks immediately after the loan date
    d. The total of items a, b, and c equals your forgiveness amount before consideration of potential limitations, including the following FTE calculation.
    e. Determine your average full-time equivalent (FTE) for employees during the eight-week period after the date of the loan, and divide it by your FTE during the period February 15 through June 30, 2019, or, at your election, the months of January and February 2020. This percentage, when less than 100%, will reduce the amount of loan forgiveness.

5. Wait to determine what action to take once your loan forgiveness is applied and the remaining balance yet owed is determined:
    a. Immediately pay off the balance, plus accrued interest, or
    b. Wait until the six months' payment-free period expires and economic uncertainty can be reassessed, or
    c. Amortize the balance over 10 years at one percent interest with a balloon payment required after two years.

FYI … What else churches should know?

From the CARES Act

1. If no PPP loan is pursued, then the CARES Act Employee Retention Credit (§2301) may be available. The *Employee Retention Credit* is for employers whose operations are 1) "fully or partially suspended during a calendar quarter [in 2020] due to orders from an appropriate governmental authority limiting commerce, travel, or group meetings … due to COVID-19" or 2) employers experiencing "significant declines in gross receipts" such that a calendar quarter in 2020 receives "less than 50 percent of gross receipts for the same calendar quarter" in 2019.

   The credit is equal to 50 percent of "qualified wages" plus health care expenses paid after March 12, 2020, and before January 1, 2021, to each employee not to exceed $10,000 for all calendar quarters (a maximum $5,000 "refundable" credit per employee claimed on 2020 quarterly IRS Forms 941).

2. If no PPP loan *forgiveness* is received, then section 2032 of the CARES Act permits delay of payment of employer payroll taxes. With respect to an employer's share of the social security portion of the FICA tax (6.2 percent of gross wages) due for the period March 27, through December 31, 2020, the required payments may be deferred until December 31, 2021, (for at least the first 50% of the amount deferred) and December 31, 2022, for any remaining unpaid balance.

3. The Act applies IRC section 127(c) ("Educational Assistance Programs") to payments of as much as $5,250 made in 2020 by employers to employees or to their lenders of principal or interest on any qualified education loans. These amounts will not be reportable income to the employees.

4. *Beginning* with 2020, up to $300 of qualified charitable contributions may be deducted by individuals who would otherwise claim the standard deduction and not benefit from itemizing their deductions.

From the Families First Act (enacted March 18, 2020)

1. Under certain conditions, the Families First Act requires most church employers to provide Family and Medical Leave compensation to employees beginning April 1 through December 31, 2020.
2. Credits for *Self-Care* or *Family-Care Leave* may reimburse employers for all or a portion of employee compensation if they are unable to work or telework due to various COVID-19 related conditions.
3. Please see our MinistryCPA COVID-19 resources (https://www.ministrycpa.org/resources/covid-19)
   a. "The Families First Coronavirus Response Act initial screening" document, and
   b. A mandatory poster to provide information to employees

Further assistance is available from our tax professionals to help churches navigate the benefits and implications of these Acts.

This summary was prepared as a service of MinistryCPA based on information available April 6, 2020. As conditions are changing rapidly, this summary is not comprehensive, nor should it be taken as professional advice.