

This has been borrowed with permission from a colleague within the United Methodist Treasurer group. I have edited parts of it, but would like to share it with pastors, local churches and faith communities in East Ohio.

We hope this finds you well and living confidently into the times. Congress passed and the President signed the CARES Act on March 27, 2020. We wanted to get this information to you because we believe it will be helpful.

Here is what we have learned thus far and what we plan to do to resource you in the days ahead.

### ***Can your church benefit from a CARES Act forgivable loan?***

That is the question on the minds of most pastors and church leaders after the passage of the \$2 trillion relief package. As we continue to research this relief package and attend webcasts and conference calls across the connection, there are some things you can begin to do to prepare to apply for the loan program. While we do not encourage you to borrow funds for normal operating expenses, it appears that this loan can most likely become a grant and not have to be repaid.

**Before proceeding with an application for this loan, please notify your district superintendent.**

Attorneys and accountants are studying the bill and guidelines are being updated daily from the Small Business Administration (SBA) and the US Treasury on how the CARES Act will be administered. However, it appears that churches and non-profits may be able to borrow money that could be completely forgiven if they maintain their staffing levels from February through June, 2020.

### ***Key Provisions:***

- **Paycheck Protection Program (PPP)** - Eligible churches and non-profits will be able to borrow up to 2.5 times their 2019 average monthly payroll and benefits. Payroll amounts are capped at \$100,000 per employee on an annualized basis.
- Loan proceeds can be used to cover payroll, benefits, employer payroll taxes, rent payments, utilities and interest on existing debt. However, only 25% of the loan proceeds can be used to pay for non-payroll expenses.
- The SBA will have to issue guidance on how a clergy housing allowance will factor into the calculations. We are awaiting further determination and guidance.

- If the church or non-profit meets the employee retention requirements, up to 100% of the loan can be forgiven.
- The period during which the program applies is Feb 15, 2020, through June 30, 2020.
- Express loans (36-hour approval) may be granted for loans up to \$1,000,000.
- Borrower and lender participation fees in the Paycheck Protection Program are waived but lender servicing fees apply up to 5%.
- Borrowers are required to make a good-faith effort to document that the loan is necessary due to economic conditions caused by COVID-19.
- Loan forgiveness must be applied for by submitting documentation to the lender that provides evidence of the covered costs incurred during the 10-week period.

Borrowers will need to demonstrate that the loan was used to retain employees, maintain payroll, interest on pre-existing debt, rent and utilities. It is expected that not more than 25% of the amount to be forgiven can be spent on non-payroll costs; i.e., interest on pre-existing debt, rent and utilities. Borrowers are not permitted to receive duplicate payments for the same expenses under different SBA programs.

Closed day care centers could benefit and participate in this program this also.

- The amount authorized is somewhat limited so do not delay. Notify your district superintendent of your intentions.

### ***Expanded Unemployment Benefits***

The Pandemic Unemployment Assistance Program (PUAP) – CARES created a temporary program to provide payments to individuals that typically would not be eligible for unemployment benefits but are unable to work because of COVID-19. In addition, the Act provides for enhanced unemployment benefits for ALL workers eligible for unemployment benefits.

Because unemployment programs are state-based programs, the eligibility criteria, benefit amounts and funding differ from state to state. CARES expands and enhances the unemployment benefits available under the state programs in the following ways:

- Benefits are expanded to include individuals who are not traditionally included in the unemployment programs.
- Extends the time period for which people can collect benefits (up to 39 weeks in total; expiring December 31, 2020).

- Provides for an additional \$600 weekly payment available for up to four months (expiring July 31, 2020), temporarily allowing for a higher rate for low-wage workers.
- Adds a short-term compensation benefit for workers who have not been laid off, but whose employment and wages have been reduced due to COVID-19.
- There is no waiting period between the time of application and receiving benefits.
- The enhanced benefits include:
  - an additional \$600 per week (even if this amount will exceed the employee's pre-unemployment earning level)
  - an additional 13 weeks of eligibility (for a total of 39 weeks)
- The Act also provides for funding to support states that develop a short-term compensation program for employers that reduce workers' hours in lieu of a layoff ("work-share" programs). This aspect does not apply to seasonal, temporary or intermittent employees.

### ***Delayed Payroll Taxes***

- CARES created a "payroll tax deferral period" from March 27 through December 31, 2020. Employers and self-employed individuals may defer payment of the *employer's share* of the Social Security tax (6.2% of employees' wages). This aspect of the Act does not excuse employers from the responsibility to remit other tax withholdings to the IRS (federal income taxes and Medicare taxes).

**Please note:** For church employers, this is generally limited to Social Security taxes on the wages of *lay* (non-clergy) employees. This is *not* a forgiveness; it is a postponement. The deferred taxes can be paid back over two years; one-half the amount must be paid by December 31, 2021 and the remaining half must be paid by December 31, 2022. The intention is to free-up existing cash and cash-flow to continue to fund essential operations, pay wages and provide employee benefits.

**Please note:** the tax deferral program will *not* be available to any organization that has had a Payroll Protection Program (PPP) loan forgiven. Therefore, until further guidance is issued, the best course would be to continue to pay payroll taxes.

- Clergy are considered self-employed for Social Security tax purposes. CARES allows them to defer payment of **part** of the Social Security taxes they would otherwise owe the IRS. This provision allows clergy to defer paying the *employer* portion of Social Security taxes (6.2% of their wages). Clergy will still have to pay the *employee* share of Social Security (also 6.2% of their wages). The deferred portion must be paid over the same period of time

as mentioned above: one-half will be due by December 31, 2021 and the balance will be due by December 31, 2022.

### ***Employee Retention Credit***

Employers, including tax-exempt employers like churches, can receive a refundable credit against “applicable employment taxes” of up to \$5,000 per employee in 2020.

- For employers with 100 or fewer full-time employees: this credit will apply if an employer experiences a decline in revenue for any calendar quarter in 2020 of 50% or more compared to the same calendar quarter in 2019. How do your church offerings in any quarter in 2020 compare to the same period in 2019? Your church may be eligible for this refundable credit.
- This credit is applied against an employer’s applicable employment taxes for each calendar quarter, with any excess refunded to the employer.
- Wages are only included if paid during the period from March 13, 2020 through December 31, 2020.
- Qualified wages do not include payments made under the Families First Coronavirus Act (FFCRA), required paid sick leave or required paid family leave.
- Qualified wages can include the employer’s portion of qualified health plan expenses.
- **Please note:** services performed by ministers in the exercise of the ministry are *excluded* from the definition of employment.

### ***What can you do now?***

- Notify your district superintendent of your intention as to a PPP loan.
- The pastor and an official group/person in the church (church council, finance committee or trustees) must approve in advance applying for the loan in a teleconference and must keep minutes. These minutes must be on record with the district superintendent. A Charge Conference held later could affirm this decision. Clergy should not sign the application on their own.
- You can ensure your 2019 Financial Statements are complete and your first-quarter financial statements are prepared as soon as possible.

- Remember that Zoom is a free product for small groups so you may use this to complete your financial reports for the 2019 year and for the first quarter of 2020. You will most likely want to have a Zoom finance committee meeting to review the data.
- Remember that there are requirements for making loans including church conference, governing committee approval, buildings and locations requirements (if the loan exceeds 25% of your buildings), etc.
- For now, you should first contact your bank to see if they are an SBA-approved bank. If they are not, then see if the banker can help you locate one. Once you have located an SBA-approved bank, ask them to immediately provide you loan documentation requirements once published by the SBA.
- Expect considerable delays insofar as this is a new program. The demand is expected to be great.

We will continue to research this wonderful opportunity. We hope to release follow-up information in the next week or two. Please watch for additional information in E-News, district newsletters and e-mails from my office.

Blessings in these days as we journey together along this new road on which we find ourselves.

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