CARES Act Update for Nonprofits
What We Know 12 Days In

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Gene has worked with religious organizations, arts and cultural organizations, civic organizations, business and professional associations and private foundations.

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Sarah has more than 15 years of public accounting experience, serving a number of not-for-profit organizations. She has extensive knowledge of not-for-profit tax compliance and consulting matters, including reviewing related-party transactions, reviewing activities for unrelated business income, assessing foreign information reporting requirements and filing charitable state solicitation registrations.

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Agenda

• Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
  – Changes to Charitable Giving Rules
  – Deferral of FICA Tax Provisions
  – Employee Retention Credit Program
  – Economic Injury Disaster Loans and Grants
  – Paycheck Protection Loan Program
    – Application Process
    – Forgiveness Provisions

• Moderated Questions – Submit to Questions Box

• Wrap-Up
Coronavirus Aid, Relief, and Economic Security Act (CARES Act)
Charitable Giving Incentive

• Personal Income Taxes
  – Standard Deduction Filers – Added a $300 above-the-line charitable contribution deduction
  – Itemized Deduction Filers – Eliminated the 60% AGI limitation for deduction of charitable contributions

• Corporate Income Taxes
  – Raised annual limit from 10% to 25%
  – Raised food donation limit from 15% to 25%
Employer Payroll Tax Payment Deferral

- Available to all employers, including self-employed individuals
- Deferral of employer share of Social Security tax (6.2%)
- Does not apply to employer share of Medicare taxes
- NO deferral of employee withholdings
  - Trust Fund Recovery Penalty (TFRP) applies
- Effective for payment due dates after March 27, 2020
- 50% of deferred taxes will be due on December 31, 2021
- Balance of deferred taxes will be due on December 31, 2022
Employer Payroll Tax Payment Deferral

- Interest-free loan
- Financial statement accrual
- Impact on cash flow planning
- Doesn’t apply if your organization secures a Paycheck Protection loan
- Procedural details should be forthcoming
Employee Retention Payroll Tax Credit

• Refundable payroll tax credit
  – Up to $5,000 for each employee
  – For wages paid after March 12, 2020 and before January 1, 2021

• Certain conditions must be met:
  – Organization was carrying on a trade or business during calendar year 2020
  – Trade or business is fully or partially suspended
  – Drop in at least 50% of revenue in 1st quarter of 2020 compared to 1st quarter of 2019
Employee Retention Payroll Tax Credit

• Credit availability:
  – Continues until revenue exceeds 80% of the same quarter in 2019

• Eligible wages
  – Includes qualified health plan expenses allocable to wages but only to the extent amounts are excluded from the employee’s gross income

• Credit not available if an organization is receiving a Small Business Interruption Loan through the Paycheck Protection Program
Emergency EIDL Grants

- Eligible entity – less than 500 employees, private non-profits included
- Limited to $10,000
- Streamlined approval process, minimal credit checks, three-day turnaround
- Use of funds not limited to just payroll and related items
- No payback necessary
- $10B authorized in this program
Paycheck Protection Loans

• Part of CARES Act
  – Part of the Small Business Administration (SBA)
  – $349B in funds available
  – Nonprofit organization eligible that is described in section 501(c)(3)
  – Under 500 employees
  – Certain eligibility certification
    • Loan necessary due to uncertainty of current economic conditions
    • Funds will be used to retain workers and maintain payroll
  – Forgiveness provisions
Paycheck Protection Loans

• Loan basics/features
  – 100% guarantee by SBA through 12/31/2020
  – Loan amount is 2.5 x average monthly payroll for the last 12 months or 2019 calendar year
  – Exceptions for new businesses and seasonal employers
  – Monthly payroll includes many elements
  – No personal guarantees
  – No collateral, nonrecourse
Paycheck Protection Loans

• Loan basics/features
  – Interest rate is 1%
  – Loan due in two years
  – Deferral of Interest and Principal for six months
  – No fees for application
  – Proceeds must be used for:
    • Payroll costs
    • Benefits – leave
    • Salaries, commissions or similar compensation
    • Payment of interest of mortgage obligation
    • Rent
    • Utilities
    • Interest on previous debt
Application Process

• Recommended to apply through your banking institution

• Provide bank with the following support:
  – 2019 IRS quarterly payroll tax reports
    • Gross wages
    • PTO
    • Vacation pay
    • Family medical leave
    • State and local taxes
  – Documentation for health insurance premiums
  – Documentation for retirement plan funding
    • 401(k) plans, SIMPLE IRAs, SEP IRAs
    • DO NOT include employee deferrals
Paycheck Protection Loans

• Loan forgiveness
  – Based on the eight-week period starting with origination of loan
  – Based on payroll costs, rents, qualified mortgage, utilities and interest on other loans (25% limitation on non-payroll expenses)
  – Reduction based on reduction in the number of employees
  – Exemption for rehires
  – Must provide documentation
Latest Developments

• U.S. Treasury seeking $200B in additional funding
  – Over $50 billion approved to date
  – 178,000 loans approved to date
• Some banks are no longer taking applications
• Clarification of the $100,000 limit
  – Does not apply to the first $100K of compensation
  – Does not include benefits – pension costs
• Payroll costs can use last 12 months or 2019 calendar year
Latest Developments

• Independent contractor or sole proprietor costs not allowed
• Payroll is calculated on a gross basis; no deduction for employee FICA or employee withholding (same on forgiveness calculation)
• Some relief from 500-employee limit based on SBA “alternative size standard” revenue for certain industries
Questions
COVID-19 Updates

For up-to-date information on legislation, please visit our firm’s COVID-19 resource page:

https://www.schneiderdowns.com/our-thoughts-on/category/Coronavirus