



THE PAYCHECK PROTECTION PROGRAM AND YOUR CHURCH OR NONPROFIT



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WHAT IS THE PAYCHECK PROTECTION PROGRAM?

On March 27, 2020, the President signed the Coronavirus Aid, Relief, and Economic Security Act (“CARES Act” or “Act”) into law. The expansive Act is the third response package enacted by the Congress to combat the effects of the COVID-19 pandemic. Of particular interest to churches is the Paycheck Protection Program (“Program”) included in the Act.

WHAT THE ACT DOES

The Program allows small employers (including churches and nonprofits with less than 500 employees at a single site) to obtain a loan from the Small Business Administration to help retain employees in spite of the economic downturn caused by the COVID-19 pandemic. An employer may request a loan for an amount equal to 2.5 times the employer’s monthly payroll, including salaries, retirement benefits, and insurance benefits, as well as monies paid to contracts and allocated on an IRS Form 1099.

WHO IS ELIGIBLE?

The Act defines eligibility for loans to include nonprofit organizations, which are further defined as “an organization that is described in section 501(c)(3) of the Internal Revenue Code of 1986 and that is exempt from taxation under section 501(a) of such Code.” This definition includes churches.

TURNING FROM A LOAN TO A GRANT

If the employer maintains payroll, the portion of the loan used for covered payroll costs (excluding individual compensation above \$100,000), interest on mortgage obligations, rent and utilities would be forgiven, essentially turning the loans into grants, helping workers to remain employed and employers and our economy to recover quickly from this crisis.

If the employer does not maintain payroll then there is a formula to calculate repayment over a ten-year period.

WHAT ARE THE SPECIFICS?

The program is retroactive to February 15, 2020, to help bring workers already laid off back onto payrolls. The loan period ends on June 30, 2020.

1) The Act establishes the maximum loan amount of \$10 million through December 31, 2020 and provides a formula by which the loan amount is tied to payroll costs incurred by the business to determine the size of the loan.

2) The Act requires eligible borrowers to make a good faith certification that the loan is necessary due to the uncertainty of current economic conditions caused by COVID-19; they will use the funds to retain workers and maintain payroll, lease and utility payments; and are not receiving duplicative funds for the same uses from another Small Business Association program.

3) The Act sets a maximum interest rate of 4%.

4) The Act allows complete deferment of loan payments for at least six months and not more than a year. The amount of debt forgiveness does not constitute taxable income.

5) The Act provides an authorization level of \$349 billion through December 31, 2020.

HYPOTHETICALS

Hypothetical - Grace Church

Grace Church (1) has an annual payroll of \$240,000.00, (2) no employee makes over \$100,000.00, (3) and has total full-time equivalency of 5 employees. If Grace Church applies and receives a loan from the program in the amount of \$50,000.00 or 2.5 times one month's expenses and uses the loan for covered expenses and retains all of its employees through the statutorily-required period then the loan would be forgiven and Grace Church would not be required to repay the loan.

Hypothetical 2 - Faith Church

Faith Church (1) has an annual payroll of \$240,000.00, (2) no employee makes over \$100,000.00, (3) and has total full-time equivalency of 5 employees. Faith Church applies and receives a loan from the program in the amount of \$50,000.00 or 2.5 times one month's expenses and uses the loan for covered expenses, but only retains four of its employees. In this case, according to the current understanding of the Program, Faith Church can have 80 percent of the loan forgiven, but must repay 20 percent of the loan because it decreased its workforce by 20 percent. In this hypothetical, \$40,000.00 of the loan would be forgiven and the remaining \$10,000.00 would need to be repaid within ten years.

**THE INFORMATION IN THIS RESOURCE IS BEING PROVIDED
BASED ON A READING OF THE CARES ACT.**

**ADDITIONAL GUIDANCE IS FORTHCOMING FROM THE SBA
REGARDING THE IMPLEMENTATION AND COULD CHANGE
PORTIONS OF THIS ANALYSIS.**

**PLEASE WATCH OUR WEBSITE FOR ANY UPDATES:
REYNOLDSLAWGROUP.COM**

**IF YOU HAVE FURTHER QUESTIONS, PLEASE CONTACT
REYNOLDS LAW GROUP, PLLC AT
[757.219.2500](tel:757.219.2500) OR ASSISTANT@REYNOLDSLAWGROUP.COM**

