



TO: Karen Howard, Alliance for Early Success  
DATE: 27 March, 2020  
RE: Coronavirus Relief Provisions for Small Non-Profit Organizations

The purpose of this memo is to provide an update on federal policy and outline provisions for non-profit organizations contained in the third coronavirus relief package, the CARES Act, which passed the United States Senate late on Wednesday, March 25. The package is expected to be voted on without change in the House of Representatives on Friday March 27 and signed by the President shortly thereafter. ***Nothing in this memo is intended to serve as legal or tax advice.***

Note: for the purpose of the loans and tax credits in the legislation, non-profit organizations are generally considered to be the same as businesses. Small business is generally defined as those with fewer than 500 employees, or businesses that are “small” according to their federal NAICS code. Some provisions apply to organizations with fewer than 100 employees. “Employee” is generally defined to include full time, part-time, and contracted staff. In some cases, different definitions apply to different provisions of the law. It will be important to consult with a legal or tax advisor to make a final determination of which provisions apply to which “small” non-profit organizations.

#### Immediate relief to taxpayers

All U.S. residents with adjusted gross income up to \$75,000 (\$150,000 for married couples) will get an automatic \$1,200 (\$2,400 for couples) payment. They are also eligible for an additional \$500 per child. The payments would start phasing out for earners above those income thresholds, and would not go to single filers earning more than \$99,000; head-of-household filers with one child who are earning more than \$146,500; and joint filers with no children who earn more than \$198,000. Checks will be mailed to individuals with Social Security numbers, based on information in their 2019 tax return, and no application is needed to receive a check. Individuals receiving SSI benefits will be eligible. It is expected that checks will begin to be mailed in approximately three weeks.

#### Delay of payroll taxes

Payment of payroll taxes for all employers is delayed without penalty, unless an employer has taken advantage of the Small Business Administration loans described below and had a portion of that loan forgiven for using the proceeds of the special SBA loans to pay wages. Although non-profit organizations generally do not pay taxes on their revenue, they are generally obligated to pay payroll taxes other than FICA.

## Small Business Loans

Previous coronavirus response packages streamlined access to SBA disaster loans, and added about \$2 billion to that program. The provisions in the CARES Act are much more flexible and generous. A \$350 billion fund has been created to provide Small Business Administration loans to small organizations impacted by coronavirus. Applicants must make good faith certifications that coronavirus has impacted the business and that the loan is necessary for continuation of the business. Applicants that previously received a loan from another source for the same purpose are not eligible. Entities that secured an SBA loan since January 15 2020 have the opportunity to refinance those recent loans under the terms and conditions of the special SBA coronavirus relief loans.

These SBA loans can be used to cover payroll expenses, including salaries and compensation; various forms of paid sick, medical or family leave; group health insurance premiums; state and local taxes assessed on employee compensation; rent; utilities; and interest paid on debt.

Certain costs paid using funds from these loans may be considered forgiven and will not have to be repaid. Costs eligible for loan forgiveness include payroll; payments of interest (but not principal) on mortgages; and utilities. Cancelled loans will be considered canceled indebtedness by the lender.

The maximum loan amount under the special SBA loans is 2.5 times the average monthly payroll costs incurred during the one-year period before the date on which the loan is made, plus the outstanding amount of any SBA loan made since January 31 2020 that is being refinanced.

Applicants will use the SBA (7)a loan process for these special loans, which can be obtained through a local bank or credit union and will be guaranteed by the SBA. Lenders must provide complete payment deferment relief of payment for principal, interest and fees for a minimum of 6 months and a maximum of 12 months.

The “covered period” of the special loans is February 15 to June 30, 2020. The interest rate on these special loans is 4%. The loans are non-recourse and not-collateralized, meaning that they are not subject to personal guarantees.

Employers that take advantage of these SBA loans will not be eligible for the tax credit described below.

## Tax Benefits

Entities that can demonstrate that they took a 50% or greater loss compared to the same quarter in the previous year can receive a fully refundable tax credit for keeping workers on their payrolls during the coronavirus pandemic.



To be eligible, operation of the organization must be fully or partially suspended due to orders from an appropriate government authority limiting commerce, travel, or group meetings due to coronavirus. For most businesses with fewer than 100 employees, the credit is available for wages paid to workers whether they continue to work or are furloughed. The credit is available for 50% of wages up to \$10,000 per worker, or a maximum of \$5,000 per worker. The credit is available for wages paid to employees who make less than \$100,000 per year. The Treasury Department will issue guidance regarding inclusion of a pro-rated share of expenses related to qualified health plans in the calculation of “wages and compensation.”

The tax credit is applied against the employer’s share of payroll taxes. Advance payments are expected to be available from the Treasury Department upon request and filing of appropriate paperwork. Treasury will also write rules to cover businesses that didn’t exist last year.

Employers who take advantage of the tax credit are not eligible for the special Small Business Administration loans described above.