



Churches of God
General Conference

700 E. MELROSE AVE.
P.O. BOX 926
FINDLAY, OH 45839
(419) 424-1961
(419) 424-3433 (FAX)

DATE: April 1, 2020

To: CGGC Churches and Conferences

From: Bob Stephenson
CGGC Director of Finance & Treasurer

Re: **Federal legislation regarding COVID-19**

On March 30 I sent out a memo of alert regarding Federal legislation regarding COVID-19. This notice primarily focused on the Families First Coronavirus Response Act and how it directly affected our local conferences and churches. Some supplemental information was provided with that notice as well. The primary focus was on employee paid sick leave and expanded family and medical leave compensation entitlements under the FFCRA and Emergency Paid Sick Leave Act (EPSLA) with respect to the Coronavirus health crisis. These benefits became effective April 1 and extend through December 31, 2020. Employers are required to implement these entitlements within 15 days of April 1. Employers are being provided a measure of relief regarding these benefits. Thus far, information forthcoming from the government is that these expenses can be taken as a credit on ongoing federal tax withholding and deposit reporting. It is my understanding the IRS will be providing more precise direction on this process in the coming days. You can follow these developments by going to www.irs.gov. Currently, on their main menu you can click on "Get Coronavirus Tax Relief" where I believe they will be providing more guidance to employers. Currently the information is directed to individuals and the financial help being provided to most citizens.

My March 30 notice had stated the Federal CARES Act for Nonprofits – Pandemic Stimulus was providing low interest loans for certain operating expenses that portions, and possibly all, of the loan proceeds could receive forgiveness. I stated I would provide more information as it became available. I am now attempting to provide you with this information as I draw upon a webinar sponsored by Evangelical Council for Financial Accountability (ECFA) and am augmenting with a couple other reliable resources. I will participate in a webinar sponsored by Church Law & Tax on Thursday, April 2.

First, let me say the presenters of the ECFA webinar were not in a professional position to say beyond all doubt that churches were permitted to participate in the nonprofit loan program, however they stated nothing they saw in the legislation and nothing from their research with trusted administrative insiders would indicate that churches were going to be excluded. That is to say, all code section 501(c)(3) entities would be eligible to participate. The obvious intent of this loan program is to provide incentive to nonprofit

employers to maintain their on-going operations and to provide employment income to their employees during this health crisis

The program is being administered by the federal Small Business Administration (SBA). If your church/conference decides to participate you will be required to make application. I am attaching a sample application that Vanderbloemen has made available. At the time of this writing you can go to www.sba.gov/funding-programs/disaster-assistance and at the top of the page click on Apply for an Economic Injury Disaster Loan. The application must then be taken to a bank that is participating in SBA loan lending who will then work with you to borrow the money from their bank. Reporting and loan payments will be conducted with the lending bank. The bank will also administer the forgiveness that is available based upon the church's satisfaction of expense substantiation requirements.

The loans are unsecured loans and therefore do not require collateral such as a mortgage or personal guarantees.

These loans can now be established through June 30, 2020. The loans will be for qualifying expenses incurred over an 8 week period beginning with loan inception. The maximum loan amount can be up to 2.5 times the average monthly payroll costs for the one-year period prior to the loan being established. This calculation must be documented, so it is anticipated that most borrowers will use 2019 to establish the monthly average from their federal payroll reporting. A loan can be for less than the calculated amount if the church/conference wants to protect against having to repay unused funds, and/or incurring interest expenses on used funds. Interest on these loans can be up to 4% but it is my understanding that banks can make the loans for less than 4% if they choose to do so.

Payroll costs include: salaries and other wages (apparently including clergy cash housing allowances), employer paid health care benefits (which appears to include HRA's, HSA's especially when coupled with consideration of included retirement benefits, dental and vision insurance), employer paid retirement benefits, employer paid state and local payroll taxes (not withholdings from employees), and according to ECFA webinar presenters it appears the law includes Form 1099 type **individual** independent contractors who are used for operational purposes. There are items of payroll administration that are not included and you can find them in a resource I am attaching.

The loans may be used for: payroll expenses, paid sick, medical, or family leave (although not the benefits required by the FFRCA), mortgage interest (not principal), interest on debt obligations incurred prior to February 15, 2020, rent, and utilities.

Forgiveness on the qualifying expenses can be obtained up to the full amount of the loan provided that: the expense documentation satisfies the requirements established by the bank, the expenses are incurred within an 8 week period from initiation of the loan, and you maintain the employment of your employees as normally employed. Loan forgiveness is subject to penalty when reducing an employee's salary/wage by more than 25% during the period of February 15 through June 30, 2020.

Terms of payment on the loan amounts not forgiven will include: payments begin at least 6 months up to 1 year from loan origination, there will be a maximum maturity of 10 years at an interest rate not to exceed 4%, and there will be no prepayment penalty for early payments.

Some additional considerations would include:

- Wages and salaries can be included up to \$100,000 per employee. It is unclear at this early juncture as to whether or not the \$100,000 cap includes benefits or whether benefits can be added to the \$100,000 cap.
- While the loan maximum might be available by formula, a borrower should consider what their actual covered expenses are realistically going to be for the 8 week period in order to avoid owing money that cannot, or will not, be used.
- Churches should give serious consideration to establishing a separate bank account to clearly track the incoming loan proceeds and the qualified outgoing expenses. This practice will facilitate the expense documenting required and help ensure the church can ascertain at any point in time what their balance of unused loan funds are and help prevent using the loan funds for an unqualified expenditure(s).

Other developments of note include the expansion of federal unemployment benefits that are available to church employees, though this program will be administered through the states. Additional information on this can be found in the attached resources. The depositing of employer's share (not employee's share) of social security taxes can be deferred through December 31, 2020. However this deferral is not available to employers who receive forgiveness through the Payroll Protection Program loans. And it appears at this point this deferral does not apply to medicare taxes. I personally do not recommend churches exercising deferrals. The risk seems too great for administrative confusion possibly resulting in penalties in interest sometime in 2021 as all payroll practices and requirements return to normal. And the church does not want to find itself in a position of not being able to pay the taxes when due under the terms of the deferral.

In addition to the above referenced sample loan application, I am attaching handouts obtained from the recent ECFA webinar and an Excel spreadsheet you might find helpful in calculating the CARES act loan items that Vanderbloemen has made available.

I hope you find this summary and attached resources to be helpful.