



CARES Act Provides Relief to Nonprofits During COVID-19 Crisis

The Coronavirus Aid, Relief and Economic Security Act (CARES Act) was signed into law on March 27, 2020. This \$2.2 trillion legislation is the largest emergency relief bill ever passed in the U.S. It injects funds into the economy and provides direct relief to individuals, states, businesses and nonprofit organizations that are experiencing hardship due to the COVID-19 pandemic.

Although the CARES Act has garnered most attention for the direct payments that will be made to all qualifying U.S. residents, nonprofits can access assistance in the form of loans, loan forgiveness, payroll tax credits, grants and emergency funding and charitable deductions for donors. The provisions of the CARES Act and how to obtain them depend on the size of the organization and its tax classification as Section 501(c)(3) and 501(c)(19) entities. The major relief provisions available are summarized below.

Loans

Under the bill's Paycheck Protection Program, nonprofit organizations can apply for up to \$10 million in no-fee loans to help fund payroll, salaries and benefits, rent, mortgages, utilities and certain debt obligations during the COVID-19 crisis. The loan period begins February 15, 2020 and extends through December 31, 2020. The program applies to organizations with fewer than 500 employees and is intended to help them stay open during the crisis. Nonprofit organizations that receive Medicaid reimbursements are excluded from the loan program. Eligible nonprofits must make good faith certification that their organizations have been affected by COVID-19 and

will use the funds to retain workers, maintain payroll and meet other debt obligations.

Loan Forgiveness

Loans obtained under the bill have the potential to be forgiven if the organization spends the funds during the eight-week period after the loan origination date on payroll, mortgage interest, rent and utility payments for services or agreements in place prior to February 15, 2020.

The four requirements necessary to receive a loan are:

- Funds are needed to support the nonprofit's ongoing operations
- Funds are used for permissible purposes (see list above)
- The organization does not have a pending application for the same purpose
- The organization has not received duplicative funds between February 15 and December 31, 2020

Nonprofits must submit appropriate documentation to their lenders, and they will receive notification within 60 days. Organizations should be aware that loan forgiveness amounts may be reduced for certain actions such as layoffs or wage reductions. If a balance remains, the nonprofit's outstanding loan will have a maximum maturity date of 10 years and a maximum interest rate of 4%.

Larger nonprofits with more than 500 employees may be eligible for a low-interest rate loan of 2% or less with no interest or payments due for the first six months. To qualify, organizations must retain or rehire at least 90% of their employees at full pay. Loan forgiveness is not offered.

Grants and Emergency Funding

The CARES Act injected additional funds into the Small Business Administration's existing Economic Injury Disaster Loan (EIDL) grants program. Nonprofits with fewer than 500 employees are eligible to apply for up to \$10,000 in EIDL grants in addition to receiving a loan under the Paycheck Protection Program, provided that the funds are not used for the same purpose.

Nonprofits can obtain an immediate advance of \$10,000 within three days of applying for an EIDL grant. If the application is denied, the applicant organization is not required to repay the advance. Emergency advance funds can be used for payroll, materials, rent, mortgage or to repay obligations that cannot be met due to income losses.

Payroll Tax Credits and Unemployment Benefits

The CARES Act provides a tax credit of up to 50% for certain employers that must close during the COVID-19 crisis. Because most nonprofits do not pay income tax, the tax credit can be applied against payroll taxes. The bill also includes a waiver of penalties for not making proper payroll tax deposits due to the crisis.

An important provision of the CARES Act provides an additional \$600 per week payment to those receiving unemployment under their state programs and to Pandemic Unemployment Assistance participants. Nonprofit organizations can be reimbursed for half of the costs to pay unemployment benefits through the end of 2020.

Charitable Deductions for Donors

For taxpayers who do not itemize, the CARES Act creates an above-the-line deduction of up to \$300 in cash contributions to nonprofits. It also increases the ceiling on itemized deductions for 2020 charitable contributions in three ways:

- For individuals, the adjusted gross income (AGI) limit on contributions is suspended and taxpayers can deduct 100%
- For corporations, the 10% net income limit is increased to 25%
- The limit on deductions for food inventory contributions is increased from 15% to 25%

The CARES Act is a comprehensive bill that was drafted and passed quickly to provide assurance to citizens, businesses and nonprofit organizations during the crisis. Regulations related to its provisions are being released over several weeks, so nonprofits are advised to stay up-to-date on the latest developments.

Learn More

To learn more about ways nonprofits can navigate the coronavirus pandemic, please contact [Alana Mueller](#) by calling [770.396.2200](tel:770.396.2200).