



COVID-19 UNDERSTANDING PAYROLL PROTECTION PROGRAM FORGIVENESS

Many churches and ministries have begun receiving Payroll Protection Program (PPP) monies. We want to help churches and ministries ensure the greatest success in qualifying for loan forgiveness by utilizing these funds the right way. How to use these monies is really ministry- or church-specific. You will have to make the right decision for your organization based on the condition of the finances of your ministry. The guidelines below do not force you to make any particular decision—there is not a one-size-fits all solution.

See the below guidelines for more information concerning Payroll Protection Program forgiveness:

- Loan proceeds are used to cover payroll costs and most mortgage interest, rent, and utility costs over the eight-week period after the loan is made
- Employee and compensation levels are maintained.

Payroll costs are capped at \$100,000 on an annualized basis for each employee. Due to likely high subscription, it is anticipated that not more than 25% of the forgiven amount may be for non-payroll costs.

Payout Period: The payout period begins on the date the loan is funded. From the date the loan is funded, you have eight weeks to spend the money on payroll. This means that when you receive the money, the following eight weeks of payroll from the deposit date will count toward the 75% of the loan forgiven for payroll expenses.

Audit Trail: When you begin utilizing PPP money, you will want to make sure you have a solid audit trail to demonstrate how the money is being used. This audit trail needs to include payroll expenses and non-payroll expenses. You need to keep clear payroll accounting to ensure you are able to prove the payroll amount that was paid during the eight-week period.

Non-Payroll Expenses: You can use up to 25% of PPP money on non-payroll expenses. This includes but is not limited to rent, mortgage, debt-service payments, utilities, etc. This amount has to be limited to no more than 25% of the total PPP amount.

Hire Back Employees: If you have furloughed employees, you have until June 30, 2020, to hire them back. You do not need to bring all your employees back during the eight-week period following the repayment of the loan, but there are penalties for not having the same number of full-time equivalents by June 30.

Restoring Pay Cuts: You have until June 30 to restore pay cuts that have been in place due to reduced hours or reduced work during the COVID-19 crisis. Make sure it is financially sensible for your organization to do this.

FICA Deferrals: Additional provisions in the CARES Act allow you to defer FICA for a period of time. Employers who do not receive forgiveness of a PPP loan may defer paying their 2020 employer FICA tax (the 6.2% tax on the first \$137,700 of an employee's earnings). 50% of the deferred tax is due on December 31, 2021 and 2022. Last week the IRS announced that PPP



borrowers also qualify for deferral through the date their loan is approved for forgiveness. Any FICA tax incurred up through that date qualifies for deferral through 2021 and 2022, but tax incurred after that date will have to be deposited without the benefit of deferral.

As your organization considers how best to handle the forgiveness portion, realize there are many ways to handle the “math problem” that is presented by the forgiveness plan. Take a look at the following example for a simple explanation:

- **\$100,000 in money loaned**
- **\$75,000 go toward payroll expenses**
- **\$25,000 go toward non-payroll expenses**

According to the above example, if you received your loan on April 20, 2020, you have until June 15, 2020, to pay \$75,000 toward payroll in order for your loan to be forgiven. Your records should show that amount of money was spent on payroll. You will also have April, May, and June expenses that could count toward the non-payroll expenses portion of the loan. This should total \$25,000 to qualify for forgiveness. If you have furloughed employees or laid off employees, you have until June 30, 2020, to hire them back or bring your full-time employee count back to the same levels you had prior. This should only be done if it makes financial sense for your organization.

NCLL attorneys are offering coaching sessions to help you make the best decisions for your ministry in regard to utilizing PPP money. Contact our office today at (888) 233-6255 or by email at info@ncll.org to set up your coaching session.