

Congressional CARES Act to provide payroll relief option to churches amid COVID-19

Rules and guidance on these issues are still being developed by government authorities. Oklahoma Baptists does not provide tax, accounting or legal advice.

Executive Summary

In response to the financial crisis created by the COVID-19 (“Coronavirus”) pandemic, the United States Congress recently passed two laws aimed to provide relief. Both laws were signed by President Trump; one of which is the “CARES Act” that offers potential payroll financial relief to churches who wish to pursue it.

Key Context

The COVID-19 Pandemic Phase III Stimulus Package signed into law on March 27, according to officials with GuideStone®, ensures churches and pastors have the same options as small businesses and self-employed individuals attempting to financially weather the economic turmoil wrought by COVID-19.

“Churches and pastors have options available to them depending on their own situations and convictions,” GuideStone President O.S. Hawkins said. “While we would never tell a pastor what he must do, it is good that the options are available for pastors and churches who may wish to avail themselves of the options available through this legislation.”

Key Implication of New Laws

The first law that was passed by Congress in response to the COVID-19 pandemic was the Families First Coronavirus Response Act (FFCRA). The FFCRA, effective April 1, 2020, requires certain employers to provide paid sick leave to employees and allowed employers to recoup some of their out-of-pocket costs for the sick leave through payroll tax credits. The FFCRA impact on churches is unclear at this point and is still being studied.

The second law, the “CARES Act,” will have significant financial impact on many churches and church staff. First, the CARES Act gives churches financial resources for maintaining and paying staff during 2020. Churches will be able to access one of two primary options for continuing to keep paying staff in 2020.

Payroll Tax Credit Option

As mentioned previously, churches are not required to participate. However, churches with fewer than 100 employees will be able to claim a payroll tax credit for up to \$5,000 per employee per year (See **Sample Spreadsheet Scenario** on page 3 for details).

The credit is determined by multiplying 50 percent times the first \$10,000 of employee compensation per employee. Employee compensation includes both wages, employer retirement contributions and premiums for group health insurance. There is no total maximum payroll credit, only the \$5,000 per employee credit maximum. This credit is claimed against employer payroll tax obligations. If the payroll tax credit under the CARES Act exceeds to the employer's payroll tax obligation, the federal government will issue a refund to the church. This credit is available for wages paid from March 13, 2020, to December 31, 2020.

Payroll Protection Loan Option

As an alternative to the payroll tax credit, churches can apply for a Payroll Protection Loan. Payroll Protection Loans are designed to be forgiven if the employer uses the proceeds of the loan for paying and maintaining staffing levels. The proceeds of the loan can also be used to pay rent, utilities and mortgage interest. The proceeds must be used for these eligible expenses within 8 weeks of the loan. If the church is able to demonstrate the use of the loan proceeds for the stated purposes of the loan, the church will be forgiven the loan principal. Any part of the loan proceeds not used for these eligible items within 8 weeks of the date of the loan will be converted to a loan with a term not to exceed 10 years nor more than 4 percent interest rate.

How to Apply for a Payroll Protection Loan

Churches can apply for a Payroll Protection Loan at their local participating Small Business Administration loan participating bank. For the loan, churches will be required to attest the COVID-19 virus has negatively impacted their business. The church will also be required to provide documentation as to the church's average monthly compensation.

Churches that seek financial resources available to them through the CARES Act will want to compare the benefits of the two alternatives: the payroll tax credit and the Payroll Protection Loan.

Cannot Do Both Payroll Tax Credit Option and Payroll Protection Loan Option

If a church will be seeking forgiveness of the Payroll Protection Loan, the church will not be able to participate in the payroll tax credit for staff compensation. Churches will need to review their maximum loan eligibility with their potential maximum payroll tax credit to see which option best serves the financial interests of the church. Churches that do not participate in the Payroll Protection Loan Program will also be eligible to defer employer tax obligations incurred in 2020. The church will be able to defer 50 percent of its payroll tax liability from 2020 to December 31, 2021, and the remaining 50 percent of the liability to December 31, 2022.

Church Staff Who Become Unemployed

Unemployed church staff can apply for federal pandemic assistance through the Oklahoma Employment Security Commission website. At this time, it is unclear whether the State of Oklahoma will enable church staff to apply for and receive the *state* unemployment benefit.

Key Unemployment Consequences & Considerations

If the State of Oklahoma approves state unemployment benefits for church staff, churches should be aware of the potential impact on the church's finances and day-to-day operations. Although unclear in the law at this point, churches may be required to reimburse the state unemployment program up to 50 percent of the employee's weekly benefit from the state. Churches should consider this potential cost when weighing laying off staff as compared to the resources available through the Payroll Protection Loan Program or the payroll tax credit. Also, church staff who receive a full unemployment program benefit may be prohibited from volunteering to perform the same type of job duties they performed while employed by the church. Church staff may experience delays in receiving their unemployment benefits due to heavy volume at the Oklahoma Employment Security Commission. Church staff may also experience delays due to church staff being newly eligible under such short notice to the State of Oklahoma.

How to Get More Information/Explanation

Please let us know what questions you may have. If you need help with the tax filings to claim the payroll tax credit for wages or for paid sick leave provided under the FFCRA, contact your tax professional. Norma Woodard and her son, Scott Woodard, are also available to assist with tax filings. Churches asking tax professionals to file tax credit paperwork should expect to incur additional fees. You can reach Norma Woodard at eagleviewn@cox.net or 405/761-4080.

Additional Helpful Links & Resources

Sample spreadsheet scenarios

<https://oklahomabaptists.org/sample-cares-scenario>

GuideStone Financial Resources summary of the CARES Act

https://guidestone.org/NewsRoom/NewsReleases/2020/2020_03_27-COVID-Pandemic-Phase-III-Stimulus-Package

SBC Q&A with Guidestone expert - The CARES Act and Your Church

<https://vimeo.com/402530500>

Summary of the CARES Act from CPA firm Capin Crouse

<https://www.capincrouse.com/key-provisions-cares-act/>

Upcoming Online Webinars for Churches:

Thursday, April 2 - 11 a.m. CT

Christianity Today's Church Law & Tax expert Richard Hammar will host a webinar called Churches and the CARES Act: Helping Congregations and Employees Weather the Cash Crunch. He will provide an overview of the CARES Act, including how it works and the provisions churches and leaders should know to minister well to their congregations and communities.

Register Now: https://zoom.us/webinar/register/6415853165727/WN_2x7BAEILS7KhNETwg2UDBQ