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How nonprofit organizations can benefit from the CARES Act

By: [Bernadette Starzee](#) April 3, 2020

Many nonprofits are struggling to stay afloat as the economic impact of the coronavirus crisis deepens. “Organizations have been affected in different ways depending on where their revenue stream comes from,” according to Candice Meth, national leader of the not-for-profit group at EisnerAmper, which has offices in Syosset.

“There are nonprofits who depend on foot traffic – whether it’s ticket sales for the ballet or the use of athletic facilities – and this has crippled them, as they have had to shut their doors,” Meth said. “Other nonprofits rely on fundraising events, many of which have been canceled.”

Professional associations that provide conferences are struggling as that revenue stream has completely dried up, added Frank Smith, national nonprofit industry tax leader for Marcum, which has offices in Melville.

“And organizations that are funded through the government or private foundations may have enough funding for now, but they’re worried about funding going forward,” Smith said.

The Coronavirus Aid, Relief, and Economic Security Act, or CARES Act – signed into law last Friday – provides a light at the end of the tunnel for nonprofits trying to figure out how they’re going to make payroll or pay the mortgage.

“Nonprofits will be impacted by many different pieces of the CARES Act, which interplay with each other,” Smith said.

Paycheck Protection Program

“For eligible nonprofits, the No. 1 most important piece from the Act is the Paycheck Protection Program loans, which 501(c)(3) organizations with fewer than 500 employees are eligible to apply for,” said Edward McWilliams, a tax director at Cerini & Associates in Bohemia. The loan program – which is through the Small Business Administration – is also open to 501(c)(19) veterans’ organizations as well as for-profit businesses with fewer than 500 employees.

Organizations can receive loans for the lesser of \$10 million or 2.5 times their monthly average payroll costs. And if they are used properly, the loans will be forgiven – essentially becoming grants.

The intended use of the loan is to allow nonprofits and other employers to retain their workers over an eight-week period beginning with the loan’s origination date. Loan forgiveness will be reduced if employers cut head count versus the prior year, or reduce employee pay by more than 25 percent, Smith said. Employees that recently laid off workers due to the crisis and hire them back will not be penalized for having a reduced payroll at the beginning of the relevant period.

Eligible payroll costs do not include compensation greater than \$100,000 for an individual employee. “The purpose of this program is to ensure the rank and file are kept in their jobs and their salaries are not reduced,” said Louis Vlahos, a partner at Uniondale-based Farrell Fritz, who has a concentration in tax law. “Its goal is to provide enough for you to take your employees through June 30.”

Besides payroll costs, which include healthcare, retirement savings and other employee benefits, organizations can also use the loans to make rent, mortgage and utility payments.

However, McWilliams cautioned, “No one is guaranteed to get a loan, and the forgiveness is not guaranteed either.” The latter requires a separate application.

“They want the entities to apply for forgiveness separately – to go in there and show they didn’t let people go or cut their salaries,” Vlahos said.

Nonprofits will be able to apply for the government-backed loans through approved banks, credit unions and other lenders as soon as this week.

“The lenders aren’t set up yet, because they are waiting for guidance,” Meth said. “As of [Monday] the guidance hasn’t been finalized, and because of that there is a lot of uncertainty about what is required to apply for the loan. It’s a fluid situation.”

The SBA released some guidance late on Tuesday, but accountants say more is needed. The application period ends June 30, Meth said.



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Payroll Tax Credits

Two new employer tax provisions are also available to most employers, including nonprofits, with the goal of helping them keep more employees on payroll, McWilliams said.

The Employee Retention Credit provides a credit against applicable employment taxes (Social Security taxes) for 50 percent of the qualified wages of each employee for each calendar quarter, up to \$5,000. Secondly, McWilliams said, organizations can defer the employer portion of payroll tax payments, particularly Social Security tax. Fifty percent of the balance will be due Dec. 31, 2021 and 50 percent will be due Dec. 31, 2022.

“Nonprofit organizations are eligible for both provisions, with one caveat: They are not eligible to apply for them if they get a Paycheck Protection loan,” McWilliams said.

Charitable Giving

The CARES Act also changed some of the rules for charitable giving to encourage more donations in 2020 from individuals and corporations, with the goal of getting cash to nonprofits who need it now.

The Act allowed for a new above-the-line charitable donation deduction of up to \$300, which is intended for taxpayers who do not itemize their deductions.

For taxpayers who itemize, deductions for charitable contributions are typically subject to a limit of 50 percent of adjusted gross income. However, the limits have been lifted for 2020 to up to 100 percent of AGI for giving to certain types of nonprofit organizations; importantly, donor-advised funds and many private foundations are excluded.

“With donor-advised funds, the money might sit there for a while,” Vlahos said. “The goal of the program is to encourage giving to charities who can immediately use it.”

In addition, Vlahos added, the caps for corporate giving have been bumped up from 10 percent to 25 percent of income for 2020.

“It’s targeted to help nonprofits, which are being hit as much as the rest of us are being hit, but when they can’t go out and help folks, it has a domino effect,” Vlahos said.

However, he added, with many businesses struggling and individuals being furloughed or having their salaries cut, “it’s questionable how many of them are going to have enough security to make contributions to charity.”