

April 10, 2020

CARES Act Provision for Nonprofits

The Coronavirus Aid, Relief, and Economic Security Act (CARES Act), a bipartisan stimulus bill, provides significant relief for nonprofits struggling through the COVID-19 crisis and for many of their employees and clients. Several provisions are of particular importance to nonprofits, including:

1. The availability of forgivable small business loans to nonprofits with 500 or fewer employees.
2. Unemployment relief for workers and (partially) for many nonprofits;
3. A (limited) universal charitable deduction for 2020; and
4. A variety of appropriations that will help many types of nonprofits.

1. Forgivable Small Business Loans That are Available to Most Nonprofits

One important provision in the CARES Act would provide funding for a new small business loan program (emergency SBA 7(a) loans) that would provide many nonprofits and small businesses up to \$10 million to cover costs of payroll, operations, and debt service. These loans would be available to nonprofits with 500 or fewer employees that existed on March 1, 2020 and had paid employees. Loan funds could be used to make payroll and associated costs, including health insurance premiums, facilities costs, and debt service. **Notably, employers that maintain employment between March 1 and June 30 would be eligible to have their loans forgiven, essentially turning the loan into a grant.**

In a major victory for charitable nonprofits, the final bill does not include a provision in earlier drafts that would have disqualified nonprofits that are eligible for Medicaid payments. For most nonprofits, these SBA 7(a) loans will be a much better option than the emergency SBA loans that were approved for Oregon small businesses and nonprofits last week. Those loans, which could cover up to \$2 million to pay fixed debts, payroll, accounts payable, and other bills that cannot be paid because of the disaster's impact, carry a 2.75% interest rate for nonprofits (lower than the 3.75% rate for small for-profit businesses), but are not forgivable.

For larger nonprofits (between 500 and 10,000 employees) that are not eligible for SBA 7(a) loans, the industry stabilization provisions in the CARES Act provide for (non-forgivable) loans at interest rates of 2% or lower with no interest or repayments required in the first six months. Large nonprofits must retain at least 90% of their staff at their full compensation to qualify for these loans.

For organizations that don't receive 7(a) loans, the CARES Act provides a refundable payroll tax credit of up to \$5,000 for each employee on the payroll when certain conditions are met. The credits are available to organizations that were operating at the beginning of 2020 and saw a drop in revenue of at least 50% in the first quarter compared to the first quarter of 2019. The availability of the credit would continue each quarter until the organization's revenue exceeds 80% of the same quarter in 2019. For tax-exempt organizations, the entity's whole operations must be taken into account when determining the decline in revenues.



2. Unemployment Relief for Workers and Nonprofits

Three provisions in the CARES Act provide significant unemployment insurance (UI) relief to workers and to nonprofits, most notably:

1. A new Pandemic Unemployment Assistance (PUA) program extends UI benefits to self-employed workers and others who are typically not eligible for UI benefits from the state of Oregon. Notably, this means that employees of churches, religious nonprofits, and small charitable nonprofits (fewer than four employees) who are out of work due to COVID-19 may now receive UI benefits under PUA.
2. The federal government would pay states for *half* of the cost of benefits that self-funded nonprofits owe as reimbursement for their laid-off employees' UI claims. While this will still leave significant costs for self-insured nonprofits, it is an important first step. NAO is continuing to advocate for the state to hold harmless these nonprofits and tribal entities for Coronavirus-related UI claims (see below). In addition to state UI benefits, unemployed workers would receive \$600 per week for up to four months.

3. Temporary (and Limited) Universal Charitable Deduction

After significant advocacy by NAO, national organizations and other state associations across the country over the past three years, the CARES Act includes a *temporary*, above-the-line deduction for total charitable contributions (also known as a universal or non-itemizer charitable deduction), which would be capped at \$300. The incentive applies to contributions made in 2020 and would be claimed on tax forms next year. While the cap is lower than most nonprofits would prefer, it will nonetheless help encourage many more Americans to make charitable contributions this year at a time when nonprofits have never had greater revenue challenges.

The bill also lifts the existing cap on annual contributions for those who itemize, raising it from 60% of adjusted gross income to 100% (meaning high-income taxpayers could receive a full tax deduction if they donate all of their income to nonprofits). For corporations, the bill raises the annual limit from 10% to 25%. Food donations from corporations would be available up to 25%, up from the current 15% cap.

4. Appropriations in CARES Act of Interest to Nonprofits

To help preserve jobs and businesses, the CARES Act also provides direct appropriations for several programs that directly support nonprofits. Some of these appropriations include:

- \$130 billion for hospitals;
- \$15.5 billion in additional funding for the Supplemental Nutrition Assistance Program (SNAP);
- \$8.8 billion for child nutrition programs;
- \$450 million for nonprofit food banks through The Emergency Food Assistance Program (TEFAP);
- \$50 million for legal services;



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- \$400 million in election grants to states to help with vote by mail and expansion of early voting and online voter registration programs;
- \$75 million for the National Endowment for the Arts and \$75 million for the National Endowment for the Humanities, much of which will go to support the operations of nonprofit arts and cultural organizations;
- \$3.5 billion for the Child Care Development Block Grant program;
- \$750 million for Head Start;
- \$1 billion for the Community Service Block Grant;
- \$5 billion for the Community Development Block Grant;
- \$4 billion in Emergency Solutions Grants to help families who are experiencing homelessness or are at risk of losing their homes; and
- \$3 billion in rental assistance for low-income Americans.