

Three Ways the CARES Act Helps Nonprofit Organizations Deal with COVID-19 Fallout



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On March 27, 2020, President Trump signed the Coronavirus Aid, Relief, and Economic Security Act (CARES Act) into law. The Act includes several provisions that benefit qualified nonprofit organizations, including the Paycheck Protection Program, Economic Injury Disaster Loans (EIDL), and an increase in charitable contribution deductions. This article provides a general overview of these provisions for nonprofit organizations in need of financial assistance. Our hope is that nonprofit organizations can use these resources to weather the COVID-19 pandemic.

Which Nonprofits are Eligible?

The provisions of the CARES Act apply primarily to 501(c)(3) and 501(c)(19) organizations with 500 or fewer employees. Whether a particular organization is eligible for relief under the CARES Act largely depends on the organization's tax classification under Section 501(a) of the Internal Revenue Code.

Faith-based organizations are eligible to receive SBA loans regardless of whether they provide secular social services. The SBA published [FAQs for faith-based organizations](#).

1. Paycheck Protection Program

The Paycheck Protection Program ("PPP") provides loans to small businesses and certain nonprofit organizations as funding to keep their workers on the payroll. The loans are provided by the Small Business Administration (SBA) through local lenders.

Under the PPP, 501(c)(3) and 501(c)(19) nonprofit organizations with 500 or fewer employees, including full-time and part-time employees, are eligible for SBA loans of up to \$10 million and expedited loans of up to \$1 million. Specifically, eligible nonprofits can receive 2.5 times the average total monthly payroll costs from the prior year (but no more than \$10 million).

Notably, the loans will be forgiven if the loan proceeds are used to cover payroll costs, most mortgage interest, rent, and utility costs over the 8 week period after the loan is made; and employee and compensation levels are maintained.

Nonprofit organizations should consult with their bank to determine if they are participating in the PPP, but generally, PPP loans will be available through SBA and Treasury approved banks, credit unions, and some other nonbank lenders. Even for debt free nonprofits, they can start by asking their local bank.

In addition, nonprofit organizations can find [guidance on the Paycheck Protection Program in this article](#).

2. Economic Injury Disaster Loans

Economic Injury Disaster Loans (EIDL) can provide financial assistance to nonprofits that suffer substantial economic injury as a result of a declared disaster, including economic injury that occurs as a result of COVID-19.

EIDLs offer up to \$2 million in working capital at a rate of 2.75% for nonprofits. The loans have up to a 30-year term, payments can be deferred for up to one year, and up to \$200,000 can be approved without a personal guarantee. The loans may be used for fixed debts, payroll, accounts payable, employee sick leave, rent or mortgage payments, and other bills that cannot be paid due to the COVID-19 pandemic.

Notably, under the CARES Act, eligible applicants for an EIDL can receive up to \$10,000 in emergency grant funds that will be made available within three days of a successful application and will not have to be repaid.

For more information on the EIDL program, read the article [Businesses Have COVID-19 Worries; These Resources Can Help](#).

3. Charitable Contribution Deductions

Aside from aforementioned loan programs, the CARES Act includes several provisions that increase the benefits of charitable giving in 2020. Nonprofit organizations and leaders should let potential donors know about these increased deductions for charitable contributions, while of course being mindful to make sure that any ask for funds is done tactfully given the economic hardships being faced by many. The most notable changes are:

- The addition of a new \$300 above-the-line charitable deduction for individual taxpayers who take the standard deduction without itemizing;
- An increase in the taxable income limitation for individual cash charitable contributions made during 2020 from 60% to 100% of adjusted gross income;
- An increase in the taxable income limitation for corporate cash charitable contributions made during 2020 from 10% to 25%; and
- An increase in the limit of charitable contributions of food in 2020 from 15% of taxable income to 25%.

Conclusion

The COVID-19 pandemic has created a lot of unknowns, especially for nonprofit organizations that rely heavily on donations and volunteerism. Hopefully, the resources provided in this post will help nonprofit organizations weather the COVID-19 pandemic and maintain the good work that they do.

Additional information is provided in the article [State and Local Government Assistance from the CARES Act](#).