

COVID-19 Tax Update for Churches

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Presenters



Jerry Walker, CPA

- Co-founder of FlockBase Software LLC
- 28 years of public accounting
- Church accounting and tax consulting
- Prepared hundreds of ministers' tax returns



Kevin Chessher, CPA

- Partner - FlockBase Software LLC
- 30 years of accounting experience
- 23 years in church administration
- Church & minister consultant

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Today's Webinars

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Kevin Chessher, CPA

Time	Webinar
9:00-11:00 CST	Year-end Tax & Accounting Update for Ministers & Church Treasurers
11:30-1:00 CST	How to Get Started Using FlockBase
1:30-3:30 CST	COVID-19 Laws for Churches

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Agenda

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Kevin Chessher, CPA

- Introduction to FFCRA, CARES & CCA 2021
- Mandatory sick/family leave pay for employees.
- Payroll protection loans/grants: How churches can apply for forgivable loans to cover payroll and other operating costs.
- Refundable employee payroll retention tax credit: How churches can receive a tax credit for retaining employees during COVID.
- Deferred payments of a portion of payroll taxes.
- Relaxed rules for charitable contributions.
- Live Q&A session.

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Housekeeping



- This material has been prepared for informational purposes only, and is not intended to provide, and should not be relied on for, tax, legal or accounting advice. You should consult your own tax, legal and accounting advisors before engaging in any transaction.
- Post your questions via FaceBook Live; we will answer as many as possible at the end of the presentation
- Try to save your questions until after we have covered the topic
- We are available for tax consulting and tax preparation--but not for free

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Families First Coronavirus Response Act (FFCRA)



- Enacted on March 18, 2020
- Requires certain employers to provide paid sick family for certain coronavirus related events
- Provides payroll tax credits to reimburse the employer for the sick/family leave paid to qualifying employees

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Coronavirus Aid, Relief, and Economic Security Act (CARES)

- Enacted on March 27, 2020
- Provide relief for employers and individuals affected by the coronavirus pandemic
- Assistance for employers to keep employees on the payroll
- Payroll loan converts into grant
- Payroll tax cuts & deferment
- Increased tax deductions for charitable contributions

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Consolidated Appropriations Act, 2021

- Enacted on December 27, 2020
- Extended the expiration date of many of the provisions in the FFCRA and the CARES Act
- Expanded some of the benefits contained in the two prior laws

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Paid sick/family leave

- Federal payroll tax credits will reimburse the amount of qualifying leave wages paid to qualifying employees
- Tax credits are claimed on Form 941 or Form 7200 (for advance payments)
- Tax credits include wages, payroll taxes and health insurance for qualifying sick/family leave payments
- Payments are reported in Box 14 of Form W-2 or on a separate statement
- Between April 1 and December 31, 2020, mandatory for all employers with less than 500 employees
- For 1st quarter 2021, not mandatory, but optional



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Paid sick leave

- Up to 80 hours (total)
- All employees (of qualifying employers) are eligible, no tenure required
- Qualifying reasons are when the employee:
 - Is subject to a federal, state, or local quarantine or isolation (this includes shelter-in-place or stay-at-home orders,
 - Is advised by a health care provider to quarantine, OR
 - Is experiencing symptoms of COVID-19 and is seeking a medical diagnosis, preventive care, or treatment.
- Qualifying reason does not include a quarantine which is not under a governmental order or advised by a health care provider.
- Amount: Employee's regular rate of pay, subject to a limit of \$511 per day



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Paid family leave

- Up to 480 hours
- Employees must have been employed for at least 30 days before becoming eligible for family leave
- Qualifying reasons are when the employee:
 - Is caring for a family member under quarantine or isolation;
 - Is caring for a son or daughter due to a school or child care provider closing
- Exception:
 - Fewer than 50 employees, **and**
 - The policy would jeopardize the viability of the business as a going concern, **and**
 - One of the following:
 - Providing the leave would cost more than the church's available revenue
 - The loss of workers on leave would be a "substantial risk" to the church's finances or operations
 - Not enough available and qualified workers to replace employees who are on leave
- Amount: 2/3 of employee's regular rate of pay, subject to a cap of \$200 per day

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Sick/family leave additional info

- Additional details are available using the links below:
- <https://www.dol.gov/agencies/whd/pandemic/ffcra-employer-paid-leave>
- https://www.dol.gov/sites/dolgov/files/WHD/posters/FFCRA_Poster_WH1422_Non-Federal.pdf

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Payroll Protection Program Loans (PPPLs)

- Two rounds of PPPLs (first-round & second-round)
- SBA loans up to 2.5 X's average monthly payroll
- No fees, no collateral
- The balance of the loan is forgivable as long as you use the money for:
 - Payroll
 - Interest on a mortgage
 - Rent
 - Utilities
 - Interest on other loans
 - Expenses to comply with CDC guidelines
 - Certain cloud computing cost
- The funds must be used within 8 or 24 weeks of the loan date



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PPLs (continued)

- The term “payroll” includes employee benefits
- A minister’s housing allowance is an allowable expense under the PPPL
- If you received a first-round loan during 2020, you could apply for a second-round loan before March 31, 2021 if your gross receipts on a quarter-by-quarter basis are down more than 25%
- If you did not receive a first-round loan during 2020, you could apply for your first-round loan between now and March 31, 2021 based upon the first-round qualification criteria.



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PPLs (continued)



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- **First-Round Loans Qualifying Criteria:**

- The borrower's certification: "An eligible recipient applying for a covered loan shall make a good faith certification that:
 - (1) the uncertainty of current economic conditions makes necessary the loan request to support the ongoing operations of the eligible recipient;
 - (2) the funds will be used for payroll costs, paid sick, medical, or family leave, mortgage interest (but not principal), interest on other debt obligations incurred before February 15, 2020, rent, and utilities;
 - (3) the borrower was in operation on February 15, 2020, and
 - (4) the borrower had employees for whom it paid salaries and payroll taxes or independent contractors as reported on Form 1099-MISC as of February 15, 2020.

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PPLs (continued)



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- Payroll is limited to \$100K annual total cost per employee
- To the extent loan proceeds are not used for the permissible expenses within the 8 or 24 weeks, the unforgiven balance carries the following terms:
 - 1% interest
 - 5 years
 - First payment due 6 months after loan origination
- Apply for a PPL from an approved SBA lender
- Only churches with less than 500 employees are eligible

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PPLs (continued)

- Average payroll lookback period can be either calendar year 2019 or calendar year 2020
- Example
 - During 2019, you had three employees
 - Their annual salaries, taxes and benefits were \$50K, \$75K and \$125K
 - Your average annual payroll is \$75K $(\$50K + \$75K + (\$125K - \$25K)) / 3$
 - Your monthly average payroll is \$6,250 $(\$75K / 12)$
 - Your maximum PPL is \$15,625 $(\$6,250 * 2.5)$



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PPLs (continued)

- The amount of loan forgiveness will be reduced if your average number of full-time equivalent employees during the 8 or 24 week period after the loan begins is less than your average number of full-time equivalent employees before.
- The amount of loan forgiveness will also be reduced if the salary or wages of any employee is reduced by more than 25% (below \$100K) when comparing the 8 or 24 week period after the loan begins to their wages during the most recent full quarter.



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Refundable Employee Retention Credit

- Payroll tax credit for qualifying wages paid
 - 50% in 2020
 - 70% for the first two quarters of 2021
- Qualifications
 - Operations have been fully or partially suspended as a result of a government order limiting commerce, travel, or group meetings, or
 - have experienced a significant decline in gross receipts:
 - For 2020, a greater than 50% reduction in quarterly receipts, measured on a year-over-year basis.
 - For 2021, a greater than 20% reduction in quarterly receipts, measured on a year-over-year basis or compared to the previous quarter.
- If less than 100 full-time equivalent employees (FTEs), all wages are eligible
- If more than 100 FTEs, only furloughed or employees with reduced hours are eligible
- Does not apply to ministerial wages or housing allowance



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Employee Retention Credit (continued)



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- You can utilize PPPL and ERC during the same year, just not for the same wages
- For 2020, capped at \$10K of wages per employee (including health insurance)
- For 2021, capped at \$10K of wages per employee per quarter
- Credit offsets the 6.2% matching portion of your Form 941 payroll taxes
- IRS is granted authority to advance payments to eligible employers using IRS Form 7200 which was released 4/1/20.
- IRS is granted authority to waive applicable penalties for employers who do not deposit applicable payroll taxes in anticipation of receiving the credit.
- Credit began March 12, 2020 and expires June 30, 2021

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Employee Retention Credit (continued)

2020 Example:

- Two employees
 - Susan's salary is \$5K per month
 - Bob's salary is \$4K per month.
- First month credit
 - Eligible wages of \$9K * 50% = \$4,500
- Second month credit
 - Eligible wages of \$9K * 50% = \$4,500
- Third month credit
 - Susan fully reached the \$10K limit at the end of the second month
 - Bob only has \$2K left before he hits the \$10K limit
 - Eligible wages of \$2K * 50% = \$1,000
- Total credit \$10K



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Deferred payment of a portion of payroll taxes

- Payment of the 2020 6.2% Social Security matching payroll tax can be deferred
- One-half of the deferred tax is due 12/31/21
- The remaining one-half is due 12/31/22
- Only applies to payroll between 03/27/2020 and 12/31/2020
- No penalty or interest on the amount deferred
- Caution: Be sure you pay the payroll taxes by the required date



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Relaxed rules for deducting charitable contributions

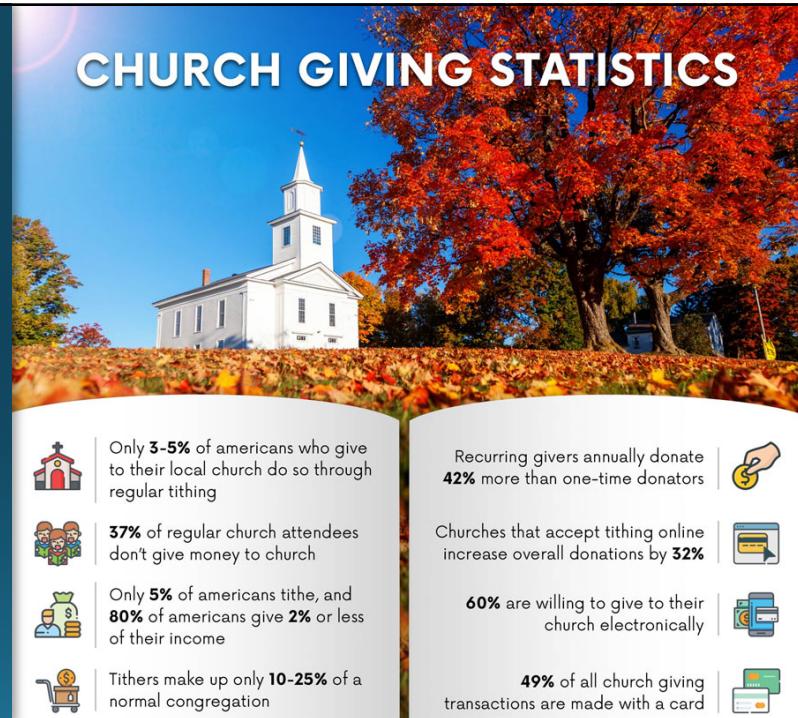
- Above the line deduction for charitable contributions
 - Previously, charitable contributions were only deductible if you itemized
 - For 2020, contributors can deduct up to \$300 from their income without itemizing
 - For 2021, married contributors can deduct up to \$600 from their income without itemizing
- The 60% limit on deducting charitable contributions increased to 100% for 2020



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Online giving

- According to nonprofitsource.com, churches that accept tithing online increase overall donations by 32%
- Ensure you are dealing with a reputable merchant processor
- Be aware of monthly fees and discount fees
- Forte, the merchant processor for FlockBase, charges a \$15 fee per month, plus \$.15 per transaction for ACH, average 1.5% for debit or 2.5% for credit



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FlockBase Feature	Desktop			Cloud		
	Accounting	Membership	Bundle	Basic	Plus	Pro
Price	\$149	\$119	\$229	\$16/month	\$29/month	\$59/month
Number of names	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited	Unlimited
Access from anywhere				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Check register & bank recs	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Financial reports	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Payroll & federal withholding	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Print W-2s & 1099s	<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>		<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Membership & Contributions		<input checked="" type="checkbox"/>				
Attendance		<input checked="" type="checkbox"/>				
Mailing Lists & Labels		<input checked="" type="checkbox"/>				
Calendar				<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Online giving					<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Group emails					<input checked="" type="checkbox"/>	<input checked="" type="checkbox"/>
Group texts & Text-to-give						<input checked="" type="checkbox"/>
Child check-in (& adults too)						<input checked="" type="checkbox"/>
Automated Backup						<input checked="" type="checkbox"/>
Number of Simultaneous Users				2	5	10

Q&A

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We hope this has been helpful.

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