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NEW CARES ACT

How the New Stimulus Package Affects Churches, Ministers & Small Businesses

Congress passed the CARES ACT on Friday, March 27, 2020 and it has some very good news for ministers and churches. This information is not intended to be a comprehensive examination of the whole 880 page document, but rather some answers specifically for small business owners, and churches regarding the questions you've been asking. It's our mission to interpret these laws and codes through the lens of a minister so that you can apply them well. No doubt there will be more details in the coming days and weeks. However, we highlight 3 major topics of urgent concern and suggest the actions necessary to get the quickest and fullest relief.

SMALL BUSINESS LOANS APPLY TO CHURCHES

THIS CAN BE A GAME CHANGER! All churches, nonprofits and small businesses need to explore this new provision and many will greatly benefit.

ACTION STEPS

1. **Call your bank/loan officer *immediately* to make sure the bank qualifies in the federal reserve system to give you a loan under the new guidelines. The SBA is technically overseeing this process but the individual banks in the Federal Reserve system are the actual lenders.**
2. **Start the application process and tell your bank to get you in the que for a**

loan

What it is: In a move designed to keep small businesses afloat, the CARES Act provides that businesses with fewer than 500 employees — including sole proprietors, churches and nonprofits — will have access to nearly \$350 billion in loans under Section 7 of the Small Business Act during the “covered period,” which runs from February 15, 2020 through June 30, 2020. The loans, which are referred to as “paycheck protection loans” and are fully guaranteed by the federal government through December 31, 2020 (returning to an 85% guarantee for loans greater than \$150,000 after that date), are generally limited to the LESSER OF:

- the sum of average monthly “payroll costs” for the 1 year period ending on the date the loan was made
- (an alternative calculation is available for seasonal employers) multiplied by 2.5, and 2)
- any disaster loan (discussed below) taken out after January 31, 2020 that has been refinanced into a paycheck protection loan, and
- \$10 million.

Payroll costs are the sum of the following:

- wages, commissions, salary, or similar compensation to an employee or independent contractor,
- payment of a cash tip or equivalent,
- payment for vacation, parental, family, medical or sick leave,
- allowance for dismissal or separation,

- payment for group health care benefits, including premiums,
- payment of any retirement benefits, and
- payment of state or local tax assessed on the compensation of employees,

Payroll costs do not include:

- the compensation of any individual employee in excess of an annual salary of \$100,000,
- payroll taxes,
- any compensation of an employee whose principal place of residence is outside the U.S.,
- or any qualified sick leave or family medical leave for which a credit is allowed under the new Coronavirus Relief Act passed last week.

Example:

First Christian Church applies for a paycheck protection loan on May 1, 2020. The Organization had \$1.2 million in payroll costs for the period May 1, 2019 through May 1, 2020, for a monthly average of \$100,000. First Christian Church is entitled to a fully guaranteed federal loan —assuming it's made before December 31, 2020 — equal to the LESSER OF:

- \$250,0000 ($\$100,000$ in average payroll costs * 2.5), or
- \$10 million.

The loans will have a maximum maturity of 10 years and an interest rate not to exceed 4%. Proceeds may be used to cover payroll, mortgage payments, rent, utilities, and any other debt service requirements. The standard fees imposed under Section 7 of the Small Business Act are waived, and no personal guarantee is required by the business owner.

An additional provision in the CARES Act provides for possible deferment of repayment of the loans for a period of at least six months, but not to exceed a year.

Loan Forgiveness of Paycheck Protection Loans (THIS IS HUGE!)

A separate section of the CARES Act calls for a portion of the aforementioned paycheck protection loans to be forgiven on a tax-free basis. The amount to be forgiven is the sum of the following payments made by the borrower during the 8-week period beginning on the date of the loan:

- payroll costs (as defined above)
- mortgage interest,
- rent,
- certain utility payments.

To seek forgiveness, a borrower must submit to the lender an application that includes documentation verifying the number of employees and pay rates, and cancelled checks showing

mortgage, rent, or utility payments.

Example

Continuing the previous example with First Christian Church, in the first 8 weeks after the Organization borrows the \$250,000, the Organization pays \$200,000 in payroll costs, mortgage interest, and utility payments. First Christian Church is eligible to have \$200,000 of the \$250,000 loan forgiven. If the Organization is a for-profit, the forgiveness will not create taxable income. In addition, because of the deferment rules in the CARES Act, any payments due on the remaining \$50,000 will not be due for six months.

There is a provision, however, that reduces the amount that may be forgiven if the employer either:

- Reduces its workforce during the 8-week covered period when compared to other periods in either 2019 or 2020, or
- Reduces the salary or wages paid to an employee who had earned less than \$100,000 in annualized salary by more than 25% during the covered period. ***This reduction can be avoided, however, if the employer rehires or increases the employee's pay within an allotted time period.***

SPECIAL RULES FOR USING RETIREMENT FUNDS

ACTION STEPS

1. **Call your financial advisor to learn about options before withdrawing funds from retirement accounts.**
2. **Explore the possibility of getting a short term loan against retirement funds if you really need to.**

WHICH RETIREMENT ACCOUNT RULES ARE SUSPENDED?

For calendar year 2020, no one will have to take a Required Minimum Distribution (RMD) from any individual retirement accounts. That way, you aren't forced to sell investments that may have fallen in value, which would lock in losses. If you don't REALLY need the money now, let the investments sit to take advantage of the recovery when it happens.

YOU CAN TAKE MONEY OUT OF YOUR RETIREMENT ACCOUNT EARLY

This exception applies only to coronavirus-related withdrawals.

- You can withdraw up to \$100,000 this year without the usual 10 percent penalty, as long as it's because of the outbreak.
- You will be able to spread out any income taxes that you owe over three years from the date you took the distribution.
- And if you want, you could put the money back into the account before those

three years are up, even though the rules may normally keep you from making a contribution that large.

You qualify if you tested positive, a spouse or dependent did or you experienced a variety of other negative economic consequences related to the pandemic. Employers or Pension Administrators can allow workers to self-certify that they are qualified to pull money from a workplace retirement account. Let us finish by saying that we (Clergy Advantage and our tax and financial advisors) are opposed to people using their retirement accounts for short term financing. We strongly urge you NOT to withdraw or borrow from your retirement accounts if there's ANY other way to get by.) Call your financial advisor to learn options that might be available to you.

That said, borrowing from your retirement account is superior to liquidating it or making early withdrawals, even though the stimulus package allows it. The Clergy Advantage 403(b) allows participants to borrow up to half of the account balance or \$50, 000 with the majority of the interest being paid back into your retirement account.

We whole heartedly agree with the opinion below written to the WSJ Letters to the Editor 3-28-20

“I can’t think of a much worse idea than to encourage people, who may already be saving too little for retirement as it is, to pull up to \$100,000 out of their retirement plan at the bottom of a stock-market collapse.” “Savers need to remember that the loss to their retirement savings from a cash-out isn’t only amount they withdraw today – it’s the loss of years of compound interest and investment growth that won’t be there for their retirement years. While waiving cash-out penalties is well intentioned, such a measure could end up hurting the very people it is meant to help by adding to our country’s already severe retirement-savings shortfall.

We can borrow now, but we can’t borrow in retirement. If you are in need of short-term liquidity, the best thing you can do is borrow, wait for the universal basic-income check int the mail, and try to avoid cashing out your retirement plan. Your 70-year old self will thank you.”

INDIVIDUAL STIMULUS PAYMENTS (REBATE CHECKS)

HOW LARGE WILL THE PAYMENTS BE?

Most adults will get \$1,200, although higher incomers may get less. For every qualifying child age 16 or under, the payment will be an additional \$500.

Single adults with Social Security numbers who have an Adjusted Gross Income of \$75,000 or less will receive the full amount.

Married couples with no children earning \$150,000 or less will receive a total of \$2,400. You can't get a payment if someone claims you as a dependent even if you're an adult. Everyone must have a Social Security number.

DOES THE CLERGY HOUSING ALLOWANCE EXCLUSION COUNT AS INCOME?

No. The individual Stimulus Payments are based on your Adjusted Gross Income which excludes the clergy housing allowance.

Ministers get a nice income advantage! Keep in mind that only "Actual, out-of-pocket" housing expenses are excluded from your Gross Income. Any "unused housing allowance" is added back to your income and is included in your Adjusted Gross Income.

ACTIONS STEPS:

1. Do nothing – there is no application process. If the IRS already has your bank account information, it will transfer the money to you via direct deposit based on the recent income-tax figures it

already has.

2. Don't call IRS. As of this writing, 3-28-20, the IRS has no information available and are telling people not to call about this.

WHEN WILL I GET MY REBATE CHECK?

Treasury Secretary Steven Mnuchin said he expected most people to get their payments within three weeks. According to the bill, you will get a paper notice in the mail no later than a few weeks after your payment has been disbursed. That notice will contain information about where the payment ended up and in what form it was made.

HOW DOES IRS DETERMINE AMOUNT OF REBATE CHECK?

Based upon your 2019 tax return. If an Individual hasn't yet filed a 2019 tax return, the IRS will determine the amount of the rebate using information from the taxpayer's 2018 tax return. If no 2018 tax return has been filed, IRS will use information from the individual's 1099-SSA or other information available. According to IRS website, "Those without 2018 tax filings on record could potentially affect mailings of stimulus checks." Consider filing your 2018 tax return ASAP, if you have not already done so.

WILL PEOPLE WHO ARE RECEIVING SOCIAL SECURITY AND DISABILITY PAYMENTS ALSO GET A STIMULUS PAYMENT?

Yes.

DO I HAVE TO PAY INCOME TAX ON THE AMOUNT OF MY PAYMENT?

No.

ARE MINISTERS AND EMPLOYEES OF CHURCHES ELIGIBLE FOR THE “EXPANDED” UNEMPLOYMENT BENEFITS?

In most cases NO. That’s because churches are generally exempt from State Unemployment Insurance. If your church did not pay into your State Unemployment Insurance program, none of the church employees are eligible for Unemployment Benefits.

There are two exceptions: Although rarely done, some churches have voluntarily paid into their State Unemployment program.

And most churches in the state of Oregon pay into their State’s Unemployment Program. Employees of churches that paid into their State’s Unemployment Program are eligible for the expanded Unemployment Benefits.

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Clergy Advantage®

2093 East 11th Street,

Suite 200

Loveland, CO 80537

p (970) 667-5819

f (970) 663-4950

clergy@clergyadvantage.com

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