COVID-19 Update

2021 PPP Loan Extension Under Consolidated Appropriations Act

January 21, 2021

On **December 21, 2020**, Congress passed the Consolidated Appropriations Act of 2021 (CAA). President Trump signed the bill into law on **December 27**. The massive bill combines general government funding and other features with provisions that specifically respond to the COVID-19 pandemic, including economic stimulus measures. The CAA expands and extends the Paycheck Protection Program (PPP) with additional funding and some refinements to further help small businesses, including tax-exempt organizations. The PPP lending program was initially created by the Coronavirus Aid, Relief and Economic Security (CARES) Act in late March 2020 and was due to expire **December 31, 2020**.

The following questions and answers may help United Methodist local churches and other UMC organizations understand the new parameters.

Q: Has the government re-opened the Paycheck Protection Program (PPP)?

A: *Yes.* The CAA provides $300 billion to the Small Business Administration (SBA) to open up the PPP loan program again. The SBA re-opened the program on **January 11, 2021**.

Q: Are churches and religious organizations eligible for the loans?

A: *Yes.* The CAA specifically states that the interim final rule published on **April 15, 2020,** by the SBA was correct in stating that churches and religious organizations are eligible for PPP loans.

Q: If my local church previously received a PPP loan, is it eligible for a second loan?

A: *Maybe.* If your local church has 300 or fewer employees, has sustained a 25% revenue loss in any single quarter of 2020 as compared to the same quarter in 2019, and your local church has used or will use the full amount of the first PPP loan before the second loan is disbursed, then your local church is eligible to apply for a "Second Draw" PPP loan. The Second Draw Borrower Application is available here.

Q: What is the maximum amount my local church is eligible to receive in a Second Draw PPP loan?

A: An organization eligible to receive a Second Draw PPP loan can borrow an amount equal to 2.5 months of average monthly payroll for eligible payroll costs during either 2019, 2020 or the one-year period before the loan is made—up to $2 million—with the same exclusions on payroll for high earners as initial ("First Draw") PPP loans. The total of the First Draw and Second Draw PPP loans added together cannot exceed $10 million.

Q: What timeframes can be used to calculate average monthly payroll?

A: For a Second Draw PPP loan, local churches have the option of calculating average monthly payroll based on one of these methodologies:

1) calendar year 2019 total eligible payroll,
2) calendar year 2020 total eligible payroll, or
3) total eligible payroll for the 1-year period prior to the date of the Second Draw PPP loan.

Q: Has the definition of "payroll expenses" been changed?

A: *Yes.* Previously, payroll expenses included group health insurance premiums and retirement plan contributions as payroll expenses, but not the costs associated with other employee benefits. Under the CAA, payroll expenses now include costs of other employer-provided group benefits, such as group life, disability, vision and dental insurance. This change applies to all PPP loans, including those made before the CAA's enactment.

Q: Are there new expense types on which our local church/organization can spend PPP loan proceeds?

A: *Yes.* In addition to the expenses that were already permitted, eligible expenses now include:

- covered operations expenditures,
- covered property damage costs,
- covered supplier costs, and
- covered worker protection expenditures.

Previously permitted eligible expenses were described in this prior document: **PPP loans FAQs**,

Q: What is a *covered operations expenditure*?

A: A covered operations expenditure is any money your local church, conference or organization spent on business software or cloud computing services that facilitates:

- business operations;
- product or service delivery;
- the processing, payment, or tracking of payroll expenses;
- human resources;
- sales or billing functions; and/or
- accounting or tracking of supplies, inventory, records, and expenses.

Q: What are *covered property damage costs*?

A: Covered property damage costs are those related to property damage and vandalism or looting due to so-called "public disturbances" that occurred during 2020 and were not covered by insurance or other compensation. The CAA does not define types of "public disturbances" that would be considered for PPP loan eligibility.

Q: What are *covered supplier costs*?

A: A covered supplier cost is an expenditure paid to a supplier pursuant to a contract, purchase order, or order for goods that was in effect prior to taking out the loan and that was essential to the organization's operations at the time at which the expenditure was made. Supplier costs of perishable goods can be paid pursuant to a contract or order in effect prior to taking out the loan or any time during the covered period of the loan.

Q: What are *covered worker protection expenditures*?

A: A covered worker protection expenditure is any operating or capital expense required to adapt the business activities of the organization to social distancing and sanitation requirements or guidance related to the COVID-19 pandemic. These are requirements or guidance issued by the Department of Health and Human Services, the Centers for Disease Control or OSHA (or equivalent guidance issued by a State or local government) to maintain sanitation standards, social distancing, or any other worker or customer safety requirement related to COVID-19. The cost also must have been incurred during the period beginning on **March 1, 2020** and ending on the date the COVID-19 national emergency status ends with respect to sanitation, social distancing, or worker or customer safety standards. This end date is not yet known.

Examples include creating, maintaining or renovating a drive-through, ventilation or filtration system; sneeze guards; onsite or offsite health screening capabilities; and personal protection equipment.

Q: My local church/organization has already received a PPP loan, but it has not been forgiven yet. Can my local church spend the proceeds on these expanded forgivable expenses?

A: *Yes.* Recipients of PPP loans made before, on, or after passage of the CAA are eligible to use the expanded forgivable expense types. However, the CAA's expanded types of forgivable expenses do <u>not</u> apply to First Draw PPP loans that have already been forgiven.

Q: For loan forgiveness, must my local church/organization still choose either an 8-week or 24-week period, as the "covered period" over which PPP loan funds were spent?

A: *No.* Borrowers have new flexibility. PPP borrowers may select any period of time between 8 weeks and 24 weeks from the date of the loan origination, as the covered period for loan forgiveness.

Q: For a Second Draw PPP Loan, is my local church/organization required to have a 60/40 allocation between payroll and non-payroll costs in order to receive full forgiveness?

A: *Yes.* In order to receive 100% forgiveness of a Second Draw PPP Loan, the borrower must spend at least 60% of the loan proceeds on payroll costs and 40% or less on non-payroll costs.

Q: Did the new law change the forgiveness process for small loans?

A: *Yes.* For loans under $150,000, a borrower can obtain forgiveness if the borrower signs and submits to the lender a certification that is not more than one page in length and includes a description of:

- the *number of employees the borrower was able to retain* because of the covered loan,
- the *estimated total amount of the loan spent on payroll costs*, and
- the *total loan amount*.

The borrower must also attest that it accurately provided the required certification and complied with PPP loan requirements. The SBA has provided this **form**. ***Additionally, borrowers must retain relevant records related to employment for four years and other records for three years. The SBA may also review and audit these loans to ensure against fraud.***

More Information

Earlier guidance about PPP loans was developed by Wespath and GCFA to assist local churches and other UMC organizations when the CARES Act was enacted. This information may be useful for broader context; ***however, earlier published Wespath/GCFA information should be read together with this set of FAQs and new information published by the SBA****:*

- PPP Loan **Application Form and UMC Guidance**
- **Guidance for United Methodist Borrowers on the PPP Loan Forgiveness Application**
- **PPP Flexibility Act**

SBA Information

Generally, SBA guidance and information can be found **here**. The guidance includes overviews of the **first** and **second** PPP draws.

- **Lender Application Form (Revised)**
- **Second Draw Lender Application Form**
- **Interim Final Rule on Paycheck Protection Program as Amended by CAA**
- **Interim Final Rule on Second Draw PPP Loans**

Wespath and GCFA continue to closely monitor legislative and regulatory developments related to COVID-19. Please check these webpages for periodic updates:

- **General Council on Finance and Administration**
- **Wespath Benefits and Investments**

The information above should not be considered legal or tax advice. Plan participants, annual conferences, local churches, or other employers or parties affiliated with The United Methodist Church (UMC) should consult with their own counsel and other advisers in considering the application of the CARES Act and CAA to their circumstances.

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