CLIENT MEMORANDUM
TO: CLIENTS AND FRIENDS
FROM: CHARITY COUNSEL
DATE: APRIL 6, 2020
RE: CARES ACT PPP LOAN VERSUS EMPLOYEE RETENTION TAX CREDITS

Preliminary Analysis of CARES Act: PPP Loan versus Employee Retention Tax Credits

[General Rule: No double-dipping between PPP loans, employee retention tax credits, FFCRA, etc.]

1. SBA Loan (Payroll Protection Program or PPP) (7(a)) (1102)
    a. Terms
        i. Max amount: 2.5 times average monthly payroll (compensation, leave, and benefits but not taxes) in past year not to exceed $10 million
        ii. 2-year term with 1% interest
    b. Forgiveness
        i. Forgiveness for amounts spent within 8 weeks of origination date on pre-existing payroll, mortgage interest, rent, and utilities
        ii. Forgiveness reduced proportionally by any reduction in FTE employees versus 2/15/19-6/30/19 or 1/1/20-2/29/20 (as selected by the org) or reduction in pay in excess of 25%
        iii. Forgiveness not available for portions of wages exceeding $100K annualized
    c. Qualification
        i. Must have 500 or fewer employees (including part-time)
        ii. Cannot be used to pay compensation of employees outside the U.S.
    d. Pros/Cons
        i. Pros: High amount; cash flow help; pays mortgage interest, rent, and utilities
        ii. Cons: Process headaches; uncertain forgiveness; must maintain employment
2. Employee Retention Credit (2301)
    a. Credit
        i. 50% of qualified wages (including health plan expenses) up to $5,000 in credit per employee
        ii. Applicable March 12, 2020-end of the year
    b. Qualifications
        i. Either: Operation of organization fully or partially suspended during the quarter due to government order limiting commerce, travel, or group meetings
        ii. OR: 50% reduction in gross receipts versus same quarter in 2019
        iii. **May apply to compensation of employees outside the U.S.
    c. Special rule for tax-exempt organizations with fewer than 100 employees
        i. If fewer than 100 full-time employees during 2019 then employees qualify regardless if they were unable to provide services due to full or partial suspension
        ii. If 100 or more full-time employees during 2019 then employees qualify ONLY if they were unable to provide services due to full or partial suspension
    d. Process
        i. Claim refund in connection with Form 941 (or in advance through Form 7200)
    e. Example
        i. If organization is partially suspended through May 31, the credit for an employee who makes ~$50,000 may be as follows:
            1. Quarter 1: ~$1,300
            2. Quarter 2: ~$3,700

- f. Pros/Cons
  - i. Pros: Minimal process; little risk; permits layoffs
  - ii. Cons: Lower amounts, little cash flow help; only covers wages

3. Factors Favoring Loan
   - a. Retention (or re-hire) of workers
   - b. High mortgage interest, rent, or utilities
   - c. Higher average employee compensation
   - d. High cash flow needs
   - e. Having more than 100 employees
4. Factors Favoring Credits
   - a. Layoff
   - b. Minimal mortgage interest, rent, or utilities
   - c. Lower average employee compensation
   - d. Minimal cash flow needs
   - e. Having fewer than 100 employees
5. Financial Comparisons
   - a. 50 employees, $200,000 in payroll per month, and $10,000 in occupancy expenses
     - i. Max Loan = $500,000; Max Forgiveness = $410,000 ($382,000 when reduced from 2 months to 8 weeks)
     - ii. Max Credit = $250,000
   - b. 50 employees, $180,000 in payroll per month, and $0 in occupancy expenses
     - i. Max Loan = $450,000; Max Forgiveness = $360,000 ($336,000 when reduced from 2 months to 8 weeks)
     - ii. Max Credit = $250,000
   - c. 50 employees, $250,000 in payroll per month, and $25,000 in occupancy expenses
     - i. Max Loan = $625,000; Max Forgiveness = $525,000 ($490,000 when reduced from 2 months to 8 weeks)
     - ii. Max Credit = $250,000
   - d. **These calculations do not include forgiveness reductions for persons making in excess of $100,000 and certain other factors.

KEY COMPONENTS TO WEATHER ECONOMIC CHALLENGES

1 ***Lead from the front and have a plan.***

Expect decline in donations. 2

A decline in donations or revenue could be moderate to significant.

Learn from organizations that have successfully navigated previous economic crisis 3

They had a plan and acted/implemented it proactively.

CEOs had long-term perspective/horizon

Had clear internal and external messaging focused on mission, work, & impact

They focused on growth areas, not just cost-cutting

4 ***Not sure how to forecast? Plan for 35-45% reduction in revenue.***

Create a multi-phase cost cutting plan, including plan to cut personnel cost

Personnel decisions as last option

In short:

Have a plan, execute it early (i.e. now), and monitor changes

Don't just focus on short-term but have a long-term horizon

Capitalize on the opportunity for growth during and post-crisis

For more information on how we can help your pregnancy resource center, please email us at questions@savethestorks.com

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CRISIS FINANCIAL MANAGEMENT CHECKLIST

- [ ] Evaluate essential vs non-essential spending habits
- [ ] Minimize unpredictable expenses by looking at prior spending
- [ ] Work with your board to update your budget and get it approved. Make recommendations and provide options.
- [ ] Do a cash flow analysis and review regularly
- [ ] Institute an accounts payable process to schedule expenses
- [ ] Institute more frequent financial reporting especially if you aren't the one directly managing the finances.
- [ ] If you have debt, reach out to your lenders NOW to ask about your options.
- [ ] If you have a line of credit, work with your board to develop a plan in the event that you need to use it. Use it wisely.
- [ ] Be proactive now to avoid being reactive later.
- [ ] Include your team in the process.

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