

GuideStone created the following question-and-answer document to provide general information on the COVID-19 Pandemic Phase III Stimulus Package signed into law on March 27, 2020. The answers offered below are based on a reading of the statute and, in many areas, additional guidance from the IRS or other administrative agencies may be issued in the future that may cause these answers to change. Since every taxpayer's situation is unique, it is recommended that individuals consult with an accountant or attorney familiar with the unique status of ministers' taxes before taking action.

I. Questions and Answers concerning the recovery rebate.

- ▶ **As a pastor or an employee of a ministry, am I eligible for a recovery rebate?** If you are a U.S. resident with adjusted gross income under \$75,000 (\$112,500 for head of household and \$150,000 married), are not the dependent of another taxpayer and have a work-eligible Social Security Number ("SSN"), you are eligible for the full \$1,200 (\$2,400 married) rebate. If you have children, you are also eligible for an additional \$500 per child.
- ▶ **What if I earned more than \$75,000 (\$112,500 for head of household and \$150,000 married)? Am I eligible for any rebate?** Yes, depending on how much you earned over these amounts. The rebate amount is reduced by \$5 for each \$100 your income exceeds the phase-out threshold. The amount is completely phased-out if your income exceeded \$99,000, \$146,500 for head of household filers with one child, and \$198,000 for married couples with no children. For a typical family of four, the amount is completely phased out for those with incomes exceeding \$218,000.
- ▶ **What if my income was above the threshold in 2019, but I've lost my job due to the coronavirus? Can I still get a rebate check?** Yes, if your income in 2019 was in the phase-out range you would still receive a partial rebate based on your 2019 tax return. Since the rebate is an advance on a tax credit that you may claim on your 2020 tax return, any additional credit you are eligible for will be refunded or reduce your tax liability when you file your 2020 tax return next year, assuming your income is lower in 2020 than in 2019.
- ▶ **Is the rebate taxable or will I have to pay back any amount?** No, the rebate is not considered income.
- ▶ **Who qualifies as a child for purposes of the rebate?** Any child who is a qualifying child for the purposes of the Child Tax Credit is also a qualifying child for the purposes of the recovery rebate. In general, a child is any dependent of a taxpayer under the age of 17.
- ▶ **Do dependents other than children under 17 qualify a taxpayer for an additional \$500 per dependent?** No, the additional \$500 per child is limited to children under 17.
- ▶ **If I have little to no income or receive federal benefits, such as SSI, am I still eligible for a recovery rebate?** Yes, there is no qualifying income requirement. Even individuals with \$0 of income are eligible for a rebate if they are not the dependent of another taxpayer and have a work-eligible SSN.

- ▶ **As a pastor I opted out of Social Security years ago. Am I eligible for a recovery rebate?** Yes, as long as you are not the dependent of another taxpayer and have a work-eligible SSN.
- ▶ **I am retired and my only income is from Social Security, my 403(b) account at GuideStone and/or I receive an annuity form of benefit from GuideStone. Am I eligible for the recovery rebate?** Yes, if you are not the dependent of another taxpayer. Seniors are still encouraged to file their 2019 tax return to ensure they receive their recovery rebate as quickly as possible.
- ▶ **Are my college-aged children eligible for a recovery rebate?** Only if they are not considered your dependent. Generally, a full-time college student under the age of 24 is considered a dependent if their parent(s) provide more than half of their support.
- ▶ **I am a Mission:Dignity recipient. Am I eligible for a recovery rebate?** Yes, if you have a valid SSN and are not claimed as a dependent by another taxpayer.
- ▶ **Will my Mission:Dignity grant or assistance payments be reduced based on the recovery rebate?** No.
- ▶ **What do I have to do to receive the recovery rebate?** For most people, nothing. The IRS will use your 2019 tax return, or your 2018 return if you haven't filed your 2019 return, to either deposit the money into an account you authorized to receive a refund or send you a check.
- ▶ **What should I do if I did not file a tax return for 2019 or 2018?** The best way to ensure you receive a recovery rebate is to file a 2019 tax return if you have not already done so. This could be accomplished for free online from home using the IRS Free file program (<https://www.irs.gov/filing/free-file-do-your-federal-taxes-for-free>). The law also requires the IRS to publish an alert notifying all individuals of their eligibility for the rebate and how to receive it if they have not filed either a 2019 or 2018 tax return.
- ▶ **If I have a past-due debt to a federal or state agency, or owe back taxes, will my rebate be reduced?** No, the law turns off nearly all administrative offsets that ordinarily may reduce tax refunds for individuals who have past tax debts or who are behind on other payments to federal or state governments, including student loan payments. The only administrative offset that will be enforced applies to those who have past-due child support payments that the states have reported to the Treasury Department.

II. Questions and Answers concerning federal assistance available to pastors or ministry staff that have lost their jobs.

- ▶ **I have heard that unemployment insurance may be available to pastors or ministry staff that lost their jobs due to the coronavirus pandemic. Is this true?** Yes, the COVID Phase III Stimulus Package provides specific provisions that will allow pastors or ministry staff who have lost their jobs to apply for unemployment benefits. The law creates a temporary program through December 31, 2020, to provide payment to those not traditionally eligible for unemployment benefits (self-employed, independent contractors, those with limited work history and others) who are unable to work as a direct result of the coronavirus public health emergency.
- ▶ **How much is this benefit?** The amount of the benefit is established by the unemployment insurance program in the state in which you live. The Stimulus, however, provides

an additional \$600 per week payment to each recipient of unemployment insurance as Pandemic Unemployment Assistance for up to four months and eliminates the requirement that unemployed individuals incur one week of unemployment before becoming eligible for benefits. In addition, the law provides an additional 13 weeks of unemployment benefits through December 31, 2020, to help those who remain unemployed after state unemployment benefits are no longer available.

- ▶ **My employer reduced my work schedule instead of laying off employees. Am I eligible for a partial benefit?** Yes, the law allows employees whose hours were reduced by employers to avoid layoffs to receive a pro-rated unemployment benefit.
- ▶ **How do I apply for these benefits?** The state in which you live administers the unemployment insurance program that provides these benefits. For instance, in Texas, the Texas Workforce Commission is responsible for administering this program. If you choose to apply for this benefit you will need to contact the appropriate state agency where you live. Here is a website that will allow you to navigate to the agency responsible for unemployment benefits in your state: <https://www.careeronestop.org/localhelp/unemploymentbenefits/unemployment-benefits.aspx>.

III. Questions and Answers concerning accessing retirement plan accumulations by pastors or ministry staff affected by the COVID Pandemic.

- ▶ **Does the Stimulus package allow me to take money out of my retirement account to pay for expenses incurred during the COVID Pandemic?** Yes, if you have money available for distribution, the law waives the 10 percent early withdrawal penalty for distributions up to \$100,000 from qualified retirement accounts for coronavirus-related purposes made on or after January 1, 2020. In addition, income attributable to such distributions would be subject to tax over three years. If you take a distribution, the law also allows you to recontribute the funds to an eligible retirement plan within three years without regard to that year's cap on contributions.
- ▶ **What is a coronavirus-related purpose?** A coronavirus-related distribution is a one made to an individual: 1) who is diagnosed with COVID-19; 2) whose spouse or dependent is diagnosed with COVID-19; or 3) who experiences adverse financial consequences as a result of being quarantined, furloughed, laid off, having work hours reduced, being unable to work due to lack of childcare due to COVID-19, closing or reducing hours of a business owned or operated by the individual due to COVID-19, or other factors that may be established by the government in the future.
- ▶ **Does the Stimulus package affect loans from my retirement plan?** Yes, the law provides flexibility for loans from certain retirement plans for coronavirus-related relief.

IV. Questions and Answers concerning federal assistance available to churches and ministries.

- ▶ **I have heard there may be federal financial assistance available to churches and ministries. Is this true?** Yes, you may consider several options made available to your church or ministry by the COVID Phase III Stimulus Package to help your church or ministry through this difficult time.
- ▶ **What options are available?** The Stimulus package makes available several forms of relief potentially benefitting churches and ministries. These include payroll tax credits, tax deferrals, encouraging charitable contributions and small business loans.

- ▶ **What is the payroll tax credit?** The Stimulus provides a refundable payroll tax credit for 50 percent of wages paid by employers to employees during the COVID-19 crisis. The credit is available to employers whose 1) operations were fully or partially suspended due to a COVID-19-related shutdown order, or 2) gross receipts declined by more than 50 percent when compared to the same quarter in the prior year.
- ▶ **How is the credit calculated?** For eligible employers with 100 or fewer full-time employees, all employee wages qualify for the credit, whether the employer is open for business or subject to a shut-down order. The credit is based on qualified wages paid to the employee. For employers with greater than 100 full-time employees, qualified wages are wages paid to employees when they are not providing services due to the COVID-19-related circumstances described above. The credit is provided for the first \$10,000 of compensation, including health benefits, paid to an eligible employee. The credit is provided for wages paid or incurred from March 13, 2020, through December 31, 2020.
- ▶ **What tax deferrals are available?** The Stimulus package allows employers and self-employed individuals (which should include pastors for this purpose) to defer payment of the employer share of the Social Security tax they otherwise are responsible for paying to the federal government with respect to their employees or the self-employed person (pastors are treated as self-employed and pay SECA [Self Employed Contributions Act] taxes). Employers generally are responsible for paying a 6.2 percent Social Security tax on employee wages. The provision requires that the deferred employment tax be paid over the following two years, with half of the amount required to be paid by December 31, 2021 and the other half by December 31, 2022. Further guidance will be needed to determine how tax deferrals may impact pastors paying SECA taxes.
- ▶ **How does the law encourage charitable contributions?** The Stimulus package allows charitable deductions of up to \$300 to churches and charitable organizations in 2020 regardless of whether donors itemize their deductions or not. The law also increases the amount of deductions for charitable contributions by individuals who itemize as well as corporations. For individuals, the 50 percent of adjusted gross income ceiling is suspended for 2020. For corporations, the 10 percent ceiling is raised to 25 percent of taxable income. This provision also raises the ceiling on deductions for contributions of food inventory from 15 percent to 25 percent.
- ▶ **Why are small business loans being made available in the Stimulus package?** The purpose of these loans is to assist small businesses in keeping workers paid and employed during the pandemic. These loans are designed to give employers an incentive and provide the ability to keep their employees instead of laying them off and shutting down their businesses. Tax-exempt entities are specifically recognized as eligible to apply for these loans that are guaranteed by the federal government.
- ▶ **How do the small business loans work for churches and ministries?** Churches and ministry organizations that are exempt from tax under Section 501(c)(3) of the Tax Code and that have fewer than 500 employees at one location and self-employed individuals, individuals operating as a sole proprietorship or individuals operating as an independent contractor, may apply for a Paycheck Protection Loan to cover payroll and related employee expenses for the period February 15 through June 30, 2020, to help them sustain their ministries.
- ▶ **How can the loan proceeds be used?** The loan proceeds may be used to pay payroll costs, group health insurance benefits, paid sick leave, medical and insurance premiums, mortgage interest payments, rent payments, utilities or interest on other loans outstanding at the time of the pandemic.

- ▶ **What costs are considered payroll costs?** Salary or wages, payments of a cash tip, vacation, parental, family, medical, or sick leave, health benefits, retirement benefits, state and local taxes. Note, however, that salary expenses above \$100,000 per employee are not eligible for consideration as payroll costs and loan proceeds may not be used to pay salaries above \$100,000 per employee.
- ▶ **How much can a church or ministry borrow?** The amount that may be borrowed is the total average monthly payroll costs for the preceding 12 months (March 2019 through February 2020) multiplied by a factor of 2.5. For example, if the average payroll costs for the preceding twelve months were \$20,000, the maximum amount of the loan would be \$20,000 times 2.5 for a total of \$50,000. The maximum amount available for a Payroll Protection Loan is \$10,000,000.
- ▶ **Can a self-employed pastor apply for a Payroll Protection Loan?** The Stimulus package allows self-employed individuals to apply for these loans. Under certain circumstances, pastors are considered self-employed and should be eligible to apply for a payroll protection loan under the same terms and conditions as other loan applicants. For example, if a pastor's average monthly salary for the preceding twelve months was \$5,000 then the pastor should be able to apply for a loan in the amount of \$12,500.
- ▶ **How soon must the church, ministry or pastor repay the loan?** Payroll Protection Loans may include a term of up to 10 years from the date of application.
- ▶ **What interest rate will these Payroll Protection Loans bear?** The maximum interest rate for these loans is 4 percent per year.
- ▶ **Is the church, ministry or pastor required to pledge collateral for the loan, or will another party have to guarantee repayment?** No. Further, the loans are non-recourse to the borrower with the exception that if loan proceeds are used for an unauthorized purpose, the then loan may be collected from the borrower.
- ▶ **May payments under the loan be deferred?** Yes, for a period not less than six months but not to exceed more than one year from the date of the loan.
- ▶ **May all or part of the Payroll Protection Loan be forgiven?** Yes, the program is designed to encourage employers to retain employees and loan forgiveness is a key feature of these loans. A ministry under a covered loan can have all or a portion of the principal of the loan forgiven in an amount equal to payroll costs, mortgage interest, rent, or utility costs during the eight-week period following the origination of the loan. The forgiven amount, however, may be reduced based on a formula that compares the ministry's employment in prior pre-COVID periods with the number of employees and each employee's wage or salary in the eight-week period following the origination of the loan.
- ▶ **Who is responsible for administering this program?** The loan program will be administered by the Small Business Administration (SBA) under its existing Section 7(a) business loan program. Certain requirements associated with typical SBA loans, such as guarantees, collateral, and "credit available elsewhere" underwriting, have been relaxed or eliminated.
- ▶ **How can a church, ministry or pastor apply for a Payroll Protection Loan?** If you choose to pursue a Payroll Protection Loan, you will need to apply through an approved SBA lender, which includes most local banks. The approved SBA lender will assist you in completing the application and providing the required documentation for the loan. The

loan documentation requirements and other traditional requirements to obtain a small business loan are substantially relaxed under this loan program.

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