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Tax and Financial Impact of COVID-19 on NFP Organizations

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It's been six weeks since much of life as we know it changed drastically. Many NFP organizations have been forced to shut down, while others are able to still operate at a lesser capacity. There have been furloughs, layoffs, and cut hours for employees. It is important to understand the impact COVID-19 has from both tax and financial aspects, and how to move forward and adapt to ever-changing times.

Tax

Extended Deadlines

Effective April 14, 2020, the IRS announced the extension of Form 990 series returns and other nonprofit filings and any related tax payments to July 15th. Any filing or payment due between April 1 and July 15 is automatically extended to July 15th, with no action by the organization.

If the above returns will not be completed by July 15th, the organization may file an extension at any time before July 15 to extend the return additional time. For example, a Form 990 that was originally due May 15 is automatically extended to July 15. If additional time is needed to file, the organization can file Form 8868 to extend the due date of the return to November 15th. However, the additional extension would not extend any payments due.

Payroll Tax Credits and Deferrals

Payroll Sick Leave Credit – The Emergency Paid Sick Leave Act generally requires employers with less than 500 employees to provide each employee with 80 hours of paid sick time for those unable to work for virus-related reasons. The payroll sick leave credit, provided under the Families First Coronavirus Response Act, is available to nonprofit organizations (as well as for-profit businesses) and can be claimed against the employer's portion of social security payroll tax on future payroll filings. The credit limit is \$200/day and an overall \$2,000 limit for each employee.

Payroll Family Leave Credit – Similarly, the Emergency Family and Medical Leave Expansion Act requires employers with less than 500 employees to provide paid and unpaid leave. The payroll family leave credit is also a credit available against the employer's portion of social security payroll tax on future payroll filings. The credit limit is \$200/day and an overall \$10,000 limit for each employee. It is important to note that employers are only able to claim one of these payroll credits.

Employee Retention Tax Credit – The CARES Act provides an additional payroll tax credit to employers whose operations were fully or partially suspended as a result of COVID-19 shutdown, or gross receipts declined more than 50 percent during a 2020 calendar-year quarter compared to the same 2019 quarter. If meeting these requirements, there is a maximum \$5,000 per employee credit.

Employer Payroll Tax Deferral – Organizations can defer the employer's share of payroll taxes for the remainder of 2020. This applies only to the 6.2% of social security, not the 1.45% of Medicare tax. Fifty percent of the deferred tax is due December 31, 2021 and the remaining fifty percent is due December 31, 2022. This deferral is not permitted for organizations that received a Paycheck Protection Program (PPP) loan and had the loan forgiven.



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Financial

Remote Auditing

Auditors have had to adapt and develop a plan to continue working on audits while most individuals are working remotely. Here are a few developments that may arise from this new process:

- Phone calls and video conferencing between clients and auditors vs. in-person discussions
- Secure web portals for exchanging documents electronically vs. actual exchange of paper documents
- Flexible schedules – Many clients and CPA firm personnel have different circumstances during this time. It may be easier for a client or auditor to work earlier in the morning or later in the evening.

Financial Statements

For financial statements prepared during this time, organizations may see disclosures which reference COVID-19 and explain the impact it has had on your organization. These disclosures may relate to underwater endowments, subsequent events, liquidity and funds available, and going concern.

Accounting Standards

The Financial Accounting Standards Board (FASB) voted to delay the implementation date of ASC 842, the lease accounting standard. This vote extended the implementation date for private companies and nonprofits for fiscal years beginning after December 15, 2021.

Summary

As you can see, COVID-19 has had quite the impact on the tax and financial aspects of nonprofit organizations. While much has changed, our goal remains the same to service our clients by continuing our work for you and providing you with up-to-date information that may affect your organization.

Contact the professionals at [Gilliam Bell Moser](#) if you have any questions.