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# Accounting for Religious Corporations

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# Employee Retention Credit (ERC)

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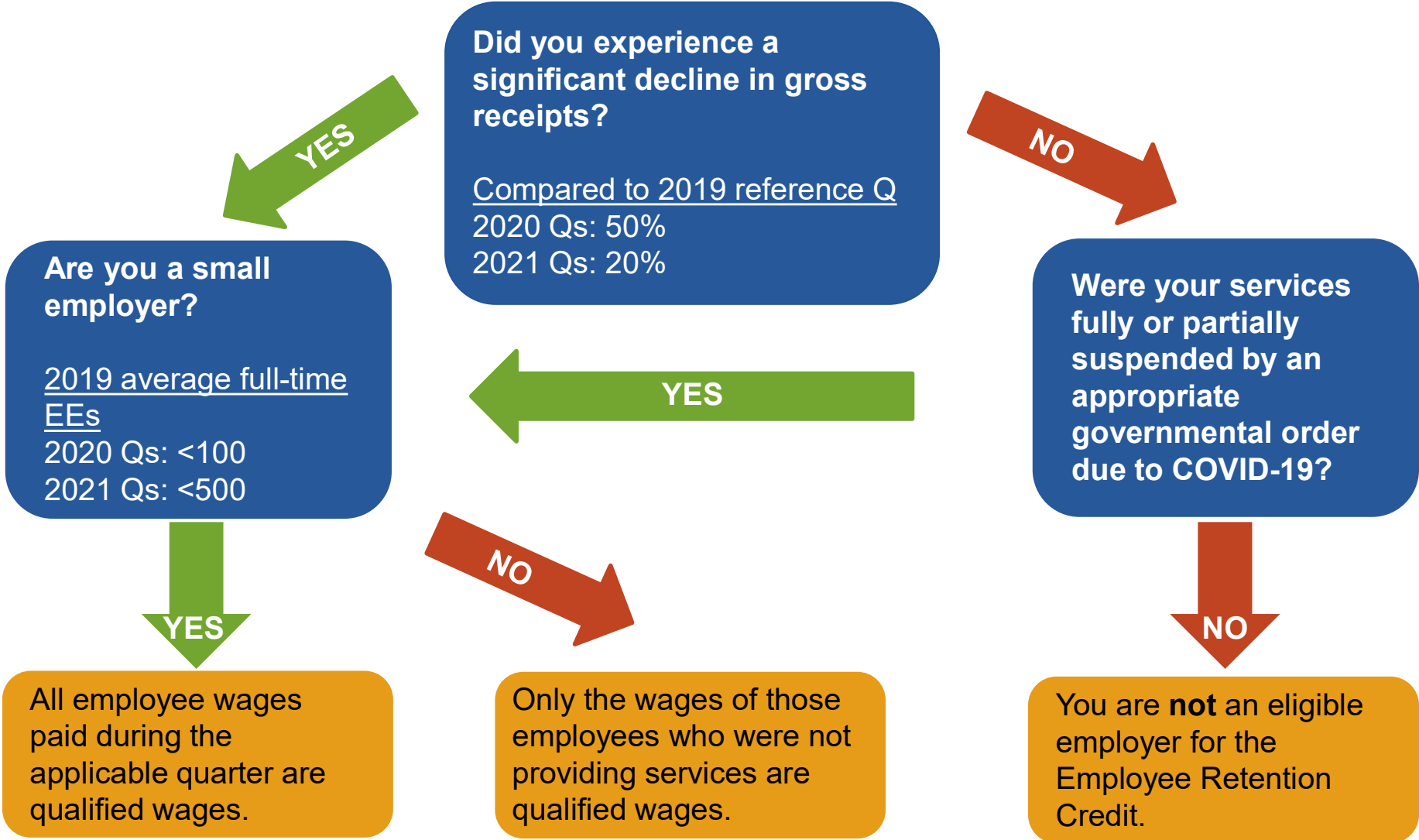
- Created by the CARES Act in 2020; has been modified and expanded by subsequent legislation
- Provides a refundable tax credit to eligible employers based upon qualified wages paid to employees
- [Now enshrined in Section 3134](#)
- Various IRS Notices have provided further guidance
  - [Notice 2021-20](#); [Notice 2021-23](#); [Notice 2021-49](#); [Notice 2021-65](#)



## Employee Retention Credit, continued

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- All quarters between March 13, 2020 – December 31, 2020, and January 1, 2021 – September 30, 2021, are still available to claim the credit
- Use Form 941-X to claim the credit
- It is taking several months for employers to receive their refunds



# Employee Retention Credit, continued

2020	2021
Qualified wages (up to \$10,000) paid after March 12, 2020, and before January 1, 2021	Qualified wages (up to \$10,000) paid after March 12, 2020, and before July 1, 2021
Had a full or partial suspension of services caused by a COVID-19 governmental order during the period, <i>or</i>  50% decline in gross receipts from the same quarter in 2019	<b>Beginning January 1, 2021:</b> Had a full or partial suspension of services caused by a COVID-19 governmental order during the period, <i>or</i> <b>20%</b> decline in gross receipts from the same quarter in 2019
100 or fewer full-time employees: eligible for the credit for every employee, regardless of whether they were able to work or not during the period	<b>500</b> or fewer full-time employees: eligible for the credit for every employee, regardless of whether they were able to work or not during the period
100 or more full-time employees: eligible for the credit for only those employees who were not able to provide services during the period	<b>500</b> or more full-time employees: eligible for the credit for only those employees who were not able to provide services during the period
Credit is 50% of qualified wages, with an annual cap of \$5,000	<b>Credit is 70% of qualified wages, with a <u>quarterly</u> cap of \$7,000</b>

# Employee Retention Credit, continued

2020	2021
<p>Credit is 50% of qualified wages, with an annual cap of \$5,000</p> <p><i>e.g. \$10,000 in qualified wages * 50% for the entirety of 2020</i></p>	<p>Credit is 70% of qualified wages, with a quarterly cap of \$7,000</p> <p><i>e.g. \$10,000 in qualified wages * 70% in Q1</i> <i>\$10,000 in qualified wages * 70% in Q2</i></p>
<p><b>Total Credit for 2020:</b> \$5,000 for entire year</p>	<p><b>Total Credit for 2021:</b> \$14,000 for Q1 and Q2 of 2021</p> <ul style="list-style-type: none"><li>• Can claim the 2021 credit even if received the maximum credit for the employee in 2020</li></ul>



# Eligible Employer Question

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Eligible employers are those who are able to demonstrate either:

- 1) A **significant decline in gross receipts**; or
- 2) A **full or partial suspension of services** due to orders from an appropriate governmental authority related to COVID-19



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# Significant Decline in Gross Receipts

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- **For 2020 quarters:** the employer experienced more than a 50% decline in gross receipts from the reference calendar quarter in 2019

Nonprofits are told that gross receipts are those within the meaning of Internal Revenue Code 6033

- **For 2021 quarters:** the employer experienced more than a 20% decline in gross receipts from the reference calendar quarter in 2019



# Full or Partial Suspension of Services

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- What does “fully or partially suspended during the calendar quarter due to orders from an appropriate governmental authority... due to COVID-19” mean?
- Three questions here:
  1. Was there an “appropriate” governmental order?
  2. Was there a “full or partial suspension” of services?
  3. Was the suspension caused by the order?

# Full or Partial Suspension of Services, continued

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## (1) Was there an appropriate governmental order? [FAQ 28](#)

- Orders, proclamations, decrees from federal government
  - Same from state or local government
- That **limit** commerce, travel, or group meetings **due to** COVID-19 that **affects an employer's operation** of its trade or business
- Statements at press conferences not enough
- States of emergency also not enough

# Full or Partial Suspension of Services, continued

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## (2) Was there a full or partial suspension of services?

- **Comparability:** Were you able to continue operations in a “comparable” manner even after the suspension?
  - What elements are lost due to the restrictions?
  - Were folks teleworking prior to the restrictions?
  - Were services widely available for live-streaming prior to the restrictions?
  - [See FAQ 33](#)
- **Modification:** What programs, elements, or portions of ministry have been modified, to the point that it has “more than a nominal effect on the business operations”?
  - [See FAQ 34](#)

# Full or Partial Suspension of Services, continued

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## (3) Was the full or partial suspension caused by the order?

- The order must actually affect your operations.
- The suspension must not have been due to causes other than the COVID-19 order.
- The order must be one that limited commerce, travel, or gatherings.
- Voluntary closures do not qualify. [FAQ 29](#)
- If customers/service recipients stop coming, that does not qualify. [FAQ 32](#)

# Qualified Wages

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- This requires you to examine two things:
  1. **First**, are you a “small” employer for the purposes of claiming the credit?
  2. **If not**, do you have any employees who were (a) paid and (b) were “not providing services” during the applicable quarter(s)?
- **Important: Ministerial wages are NOT included.**

# Employee Retention Credit Update

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- Summary Reflections
  - Use the guidance provided in [Notice 2021-20](#) when determining whether you have experienced a full or partial suspension of services
  - Use [Notice 2021-20](#) guidance for determining what is includible in gross receipts
    - Employers may exclude forgiven PPP loans – [See Rev. Proc. 2021-33](#)
  - What is an appropriate governmental order? Must be (1) an **order** and (2) **apply to the employer**



# Employee Retention Credit Update, continued

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- The IRS had noted that it would begin training agents to audit Employee Retention Credits in the February – March 2022 timeframe, with exams to begin based on the timeline for training completion
  - That timeline has almost certainly been pushed back and there have been no audits of the credit as of yet
- Factors for determining audit likelihood:
  - Size of credit
  - Type of industry
  - Other factors?
- Congress has extended the timeframe for assessment to five years (3134(l))



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# Accounting Considerations

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- It is appropriate to apply FASB ASU 958-605, *Contributions Received and Contributions Made* to the recording of ERC revenue. The ERC qualifies as a conditional grant, with revenue recognized as the barriers to revenue recognition are met. Management will need to evaluate and conclude on when and how those barriers are met within the framework of FASB ASU 958-605.

# Accounting Considerations, continued

- Some possible scenarios are:
  - Eligibility via the suspension of services test – The ERC revenue would be earned as the wages are paid throughout the time period of the suspended services. The contribution and related receivable would be recorded as those wages are incurred.
  - Eligibility via the gross receipts test – The barrier to revenue recognition is not met until the end of the quarter, as the test depends on a quarter-end revenue comparison to the same quarter in 2019. The contribution and related receivable would be recorded at the end of each quarter in which the organization experiences the qualifying decrease in revenue.
  - Receipt of funds from 941-X filing – If management concludes that the receipt of ERC funds from the Form 941-X filing is more than an administrative task and therefore a barrier to revenue recognition which must be overcome, the contribution would not be recognized until funds are received from the IRS.

Note: The above scenarios are possible interpretations of the underlying accounting guidance and dependent on each individual organization's facts, circumstances, and management conclusions. It is recommended that you discuss the fact patterns and conclusions with your auditors.

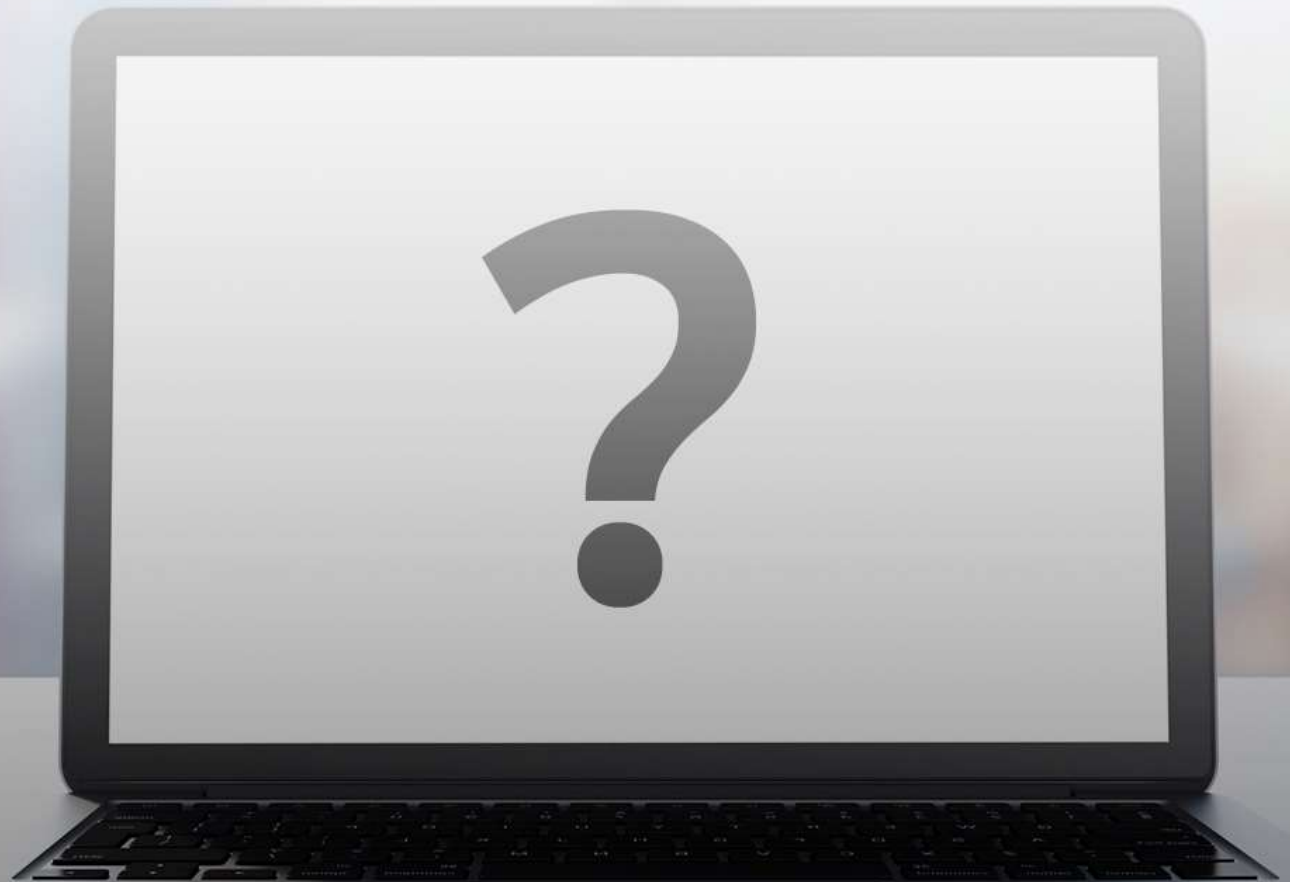
# Accounting Considerations, continued

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- The contribution revenue is without donor restrictions, as any implied time restriction would have been met upon the due date of the receivable (it is due when earned) and there is no purpose restriction on the contribution.
- Financial Statement Presentation:
  - Statement of Financial Position – If the revenue recognition position taken by management results in a receivable being recorded, it should be reflected as a current receivable.
  - Statement of Activities – The contribution should be reflected gross, in the operating support and revenue section, as either contribution, grant, or other income. The contribution revenue should not be netted against salary or payroll tax expense.
  - Footnotes – Include disclosures about the nature and amounts of the ERC revenue recognized. In addition, risk and uncertainty wording such as below is suggested:
    - *Laws and regulations concerning government programs, including the Employee Retention Credit, established by the Coronavirus Aid, Relief, and Economic Security (CARES) Act, are complex and subject to varying interpretation. Claims made under the CARES Act may also be subject to retroactive audit and review. There can be no assurance that regulatory authorities will not challenge the Organization's claim to the ERC, and it is not possible to determine the impact (if any) this would have upon the Organization.*

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Questions?





# Thank you.

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