



# TaxNewsFlash

## Exempt Organizations

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## Congress passes unemployment relief for tax-exempt entities (COVID-19)

The U.S. Congress has passed legislation to provide relief for tax-exempt organizations, allowing offsets of the costs of unemployment benefits provided for the organizations' workers who received unemployment insurance payments.

The House of Representatives on July 9, 2020, passed S. 4209, *Protecting Nonprofits from Catastrophic Cash Flow Strain Act of 2020*. The bill was passed by the Senate on July 2, 2020. The next step is for the bill to be enrolled and sent to the White House for action by the president.

Read text of the bill: [S. 4209](#)

With passage by the House, the Ways and Means Committee issued a [release](#) noting:

- Tax-exempt organizations, state and local governments, and federally recognized Indian Tribes generally have the option of operating as “reimbursing employers” under state unemployment insurance (UI) systems—meaning that they make payments in lieu of contributions to finance benefits attributable to them. Most states periodically bill reimbursing employers for benefits paid out to their former employees. In turn, employers who opt for this payment method are not obligated to pay unemployment insurance payroll taxes.
- A provision of the “Coronavirus Aid, Relief, and Economic Security Act” (CARES Act) (Pub. L. No. 116-136) was intended to provide emergency relief to reimbursing employers by federally financing 50% of the UI obligations for these employers for the period beginning March 13 and ending December 31, 2020. However, as interpreted by the Department of Labor in April 2020 guidance, reimbursing employers “must pay their bill in full” before they can receive reimbursement for one-half of their obligation. For many employers, the requirement to pay 100% of the UI bill before securing relief exacerbates the financial impact of historically high claims triggered by the pandemic.
- S. 4209 would enable states to provide the CARES Act’s 50% emergency relief to reimbursing employers without requiring these nonprofits or other entities to pay their full bill first. The net cost

to the employer and the federal government would remain the same. For states that have already begun administering UI relief under current law requirements, the legislation includes an explicit safe harbor that would be applicable prior to the date of enactment.

### **KPMG observation**

The legislation would provide cash-flow relief for tax-exempt organizations that “self-insure” and that now must reimburse states for employees that claimed unemployment insurance during the COVID-19 pandemic.

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