OC Accountants Interpret Fine Print on Coronavirus Rules

Local Experts Explain PPPs, NOLs, Taxes

By PETER J. BRENNAN

This month marks 28 years since **Kim Letch** began her career at **Ernst & Young LLP**.

"So much has changed in the accounting profession over that time, and yet, it pales in comparison to the scale and magnitude of the change that we've all witnessed and felt in our lives and businesses over the last three months," said Letch, who is managing partner in charge of E&Y's Orange County office.

"All of us—whether you're a company headquartered in Orange County or London—are facing uncertainty, disruption and the potential for transformation."

Three months ago, before the coronavirus pandemic, acronyms like PPP and CARES didn't exist in the accounting world.

Accountants have scrambled in recent months to understand the ramifications of newly enacted programs like the Paycheck Protection Program, which targets firms under 500 employees, and the Main Street Lending Facility, which provides financing to larger companies with up to 10,000 employees or up to $2.5 billion in 2019 revenue.

They are trying to discern the ramifications for state taxes and are diving into the fine print for employee retention credits, economic impact payments and corporate credit facilities.

"In the midst of every crisis, lies great opportunity," said **Meghan Andersson**, manager in the tax department at **SingerLewak LLP**.

"Now is the time to get your management team together to determine where the company is headed, considering lessons learned from this crisis."

The Business Journal asked top accountants at five Orange County firms for their views and split their answers into categories such as the ubiquitous PPP and the tax ramifications.

"Regardless of the taxation aspects of these programs, many companies are grateful for government assistance received to carry them through these unprecedented times," said **Deborah Dickson**, founder and managing partner of Irvine-based **Smith Dickson CPAs LLP**.

Smith Dickson CPAs LLP

- OC HEADQUARTERS: Irvine
- FOUNDED: 1982
- OC EMPLOYEES: 14
- FOUNDER/MANAGING PARTNER: Deborah Dickson
- NOTABLE: Dickson testifies in courts as a forensic expert witness on business disputes including fraud, intellectual property and real estate

PPP

Dickson: Three months ago, at the inception of the stay-at-home orders, we heard from clients who ceased operations overnight: international rock concert/sporting events producers; owners of a downtown Los Angeles parking tower management company; many lawyers due to court closures; and well-known touring rock bands.

To help each of these businesses and many others to survive, we worked with them to secure PPP loans.

The allure at the inception of these loans was eligibility for loan forgiveness if the proceeds were used on qualified business expenses, and the loan forgiveness amount was marketed as non-taxable.

A month after the PPP program was implemented, the IRS issued Notice 2020-32 which prohibited a tax deduction for expenses incurred and ultimately forgiven. The IRS ruling effectively made the forgivable part of the loan taxable which did not appear to be Congressional intent in the CARES Act. The American Institute of Certified Public Accountants immediately challenged the surprise ruling. Congress has not yet passed legislation to override this decision.

After this IRS news, some positive changes were legislated. As of this date, to apply for loan forgiveness, 60% (down from 75%) of PPP proceeds must be used to cover payroll or specific benefits, including 401(k) employer contributions and health insurance. The remainder of the business costs must include rent, mortgage interest, or utilities. These costs may be incurred any time within 24 weeks of the loan origination date. This is exciting news for many clients who are hoping to bring back their employees and jumpstart operations when the economy stabilizes.

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> —Deborah Dickson, Smith Dickson CPAs LLP

Dickson