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INSIGHT: Advising Business Clients in a Post-Covid World

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One day it is a discussion with your client about how to obtain client data by wrapping up year-end before the deadline; the next day the conversation is how can we help the client survive? Over the next several weeks like many CPAs I spent my days advising clients on how to remain sustainable, how to keep lights on and paychecks flowing, and, most importantly, how to pay for it. We went from tax and business advisors to turnaround specialists in a matter of days. Quickly shuffling between rapid changes in tax law and tax incentives to financing programs from the SBA. In a typical day we would spend hours on the phone explaining the Payroll Protection Program (PPP), the Economic Injury Disaster Loan (EIDL), grant programs, tax credit programs, even state programs, all the while shifting back and forth between compliance and crisis management.

The past 12 weeks was a supercharged lifecycle of a business. As CPAs we had to take our compliance hats off and prioritize business survivorship, all during a flurry of tax law changes, SBA rule changes, and the inconsistencies with the IRS and Department of Treasury, to name a few. I can't even count the number of hours spent reading, advising, and talking to clients and banks. My fellow CPAs should be commended for the work they did to keep these businesses running. I'm very proud of the work they performed. To tackle many of these programs with day-to-day changing rules, for a client to handle on their own seems insurmountable. CPAs have been the doctor to these businesses with PPP and other programs being the medicine. Now that we are starting to open again, CPAs will play an even greater role.

CPAs have a unique opportunity. By working with a wide variety of businesses, we have strategic insight into an array of businesses and models. Being able to quickly and on the fly advise clients what to do and why is a skillset many of us have learned through experience. Now those skills will be absolutely critical to our client's success. We can best assist our clients by integrating the following focus areas:

1. Cash Flow—Cash is king and for small business, and frankly for any business it's the lifeblood. Look at all available funding sources. Clients don't always want to use debt, but when it's available, it's time to take advantage. When credit is readily available, we must act, and if a business can't get a loan during this credit bonanza, there are other problems. Even if a small business is cash-strong right now, consider leveraging low-cost money. We want to obtain credit when we don't need it rather than try to obtain it when we do need it.

2. Take advantage of PPP—There is a lot of misinformation out there about this program. The SBA provides a relatively thorough FAQ on their website, but nonetheless clients will need much of this explained in English. It's complicated but too good to pass up when clients can obtain what's essentially a tax-free grant (and don't forget the self-employed). Having said that we must brace our clients for the ever-changing rules on the program as well. For example, although the Department of Treasury clarified this forgivable loan will be tax free upon being forgiven, this is really not the case, at least as of the date of this article. The IRS issued guidance under Notice 2020-32 that expenses paid using PPP funds will not be tax deductible to the business. I found it outrageous that the government communicated these funds will not be taxable upon forgiveness but then effectively will back-door tax the funds by disallowing the deductions. This is disturbing and frankly could be an unknown surprise tax for 2020. Let's take an example:

Scenario 1 (tax-free debt forgiveness and deductible expenses):

• Revenue -\$1 million • Expenses before PPP expenses – \$600,000 • Loan amount – \$100,000 • PPP expenses (payroll and utilities) – \$100,000 • Net taxable income – \$300,000 • Federal income tax – \$120,000

Scenario 2 (tax-free debt forgiveness and disallowed deductible expenses):

• Revenue -\$1 million • Expenses before PPP expenses – \$600,000 • Loan amount – \$100,000 • PPP expenses (payroll

and utilities) – \$100,000 • Net taxable income – \$400,000 • Federal income tax – \$160,000
Tax differential of \$40,000 (160k-120k) on a loan of \$100,000. Thus, 60 cents on the dollar.

Thus, in this case a loan amount to a client, who thought it was going to be worth \$100,000, is now only worth \$60,000. I'm not the only one who thought this violated the intent of the program. Senator Chuck Grassley (R-Iowa), Chairman of Senate Finance Committee, and House Ways and Means Committee Chairman Richard Neal (D-Mass.) both took issue with this guidance. In fact, the Small Business Expense Protection Act of 2020 was introduced in the Senate to reverse this situation. Like you I will not hold my breath, so stay tuned.

3. Coordinate the spend down of PPP in advance—I strongly suggest outlining what this looks like over the period of use. Coordinate when and how payroll will be spent. Include reasonable bonuses (see SBA guidance for caps) and retirement and health benefits for employees. There are a lot of good tracking tools out there, and the AICPA version is a good model to start with.

4. The EIDL program is a great way to obtain liquidity—While it got off to a slow start, these loans are starting to fund. At only 3.5% with a 12-month payment deferral period, it's hard to pass up. As stated earlier, cash is king.

5. Model new business—For many businesses the demand may not be there right away, particularly travel and entertainment. That being said, consider a "new norm" and what that might look like. Determine reasonable income to owner and work backwards towards a new revenue model, starting with fixed costs. This will help identify where and what will need to change. The most likely first step is cost-cutting. Phase two might be developing a model where the business operations are more streamlined. Phase three might be the development of a new business model.

6. Tax credits—Don't forget the credits! Congress left us with a plate of tax goodies, from the Employee Retention Credit, to Payroll Tax Deferrals, there is a lot to digest there. Don't ignore them, do some homework as some of these can be very valuable, more than you might think.

7. State assistance—Research each state's Covid relief and your bordering states. Many if not most states have jumped on Covid assistance. Check state and local property tax relief for example, or grants through the state. Most information can be found under each state's economic development council or equivalent. The cities and towns are also offering assistance.

8. And finally and most importantly, communicate—Whether blogs or your website or twitter or whatever—Get the message out as to what's happening. As CPAs we are the trusted advisors. We are trusted to know the truth and provide guidance to help our clients sort through the mud. Providing weekly emails on PPP for example are extremely helpful to clients. Another action to consider, which I will be doing as well, is weekly small business roundtable Zoom meetings. This way with a one hour session per week, I can invite all my business clients to listen in as I explain the latest in PPP and other savings strategies to keep our businesses running. Update social media frequently and in real time as things change. And finally, we must be available during this time. Text, emails, cell phone, etc. For the next several months we are going to need to be there.

As we make the shift from compliance to advice during this critical time it's imperative that clients can rely on the most trusted three letters in professional services. I don't have any doubt that the rest of 2020 will continue to provide tax law changes, banking changes, and economic swings, and all the while we will be there to wear the hat of that day. Keep up the great work!

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