



April 16, 2020

Re: Government Rescue Plan and the Road Ahead

Dear Client:

I hope that you are safe and well during the current shelter in place order, which is expected to last until May 15th for Los Angeles County. Our office is back on an 8:30AM to 5PM Monday through Friday schedule, as we are an “Essential Service”. The staff is all at work except for one high risk employee.

Until the shelter in place order is lifted, we urge our clients not to come to our office for the health and safety of everyone involved. The tax deadline has been extended until July 15th to file your 2019 income tax returns and pay any due taxes, including 1st and 2nd quarter 2020 estimates. Please call for an appointment or come into our office after May 17th.

Until then, we request that you mail, fax (562-865-2760) or use our web portal, ShareFile, to exchange documents with us. Until May 18th, we will contact you via phone or Zoom Meeting (free web video conferencing), if we need to follow up, in a contactless setting. There will be no in-person meetings until May 18th.

Although we are hearing from our doctor clients that the emergency room visits of severe COVID-19 cases seem to have slowed down, and there is news of the curve flattening, they are expecting waves of resurgence for the rest of 2020 and 2021 until a vaccine to COVID-19 becomes available. We should expect the current situation to be the new normal until 2021.

Today, Wall Street Journal reported that the Paycheck Protection Program (“PPP”) fund has been exhausted, <https://www.wsj.com/articles/funding-exhausted-for-350-billion-small-business-paycheck-protection-program-11587048384?mod=djemalertNEWS>. According to the article, an additional \$250 billion is being sought to meet the remaining PPP loan requests, with some trade group calling for as much as \$1 trillion in order to satisfy the demand of America’s small business.

Our firm has applied for the PPP loan and we have been told that we have a loan number and the loan documents are being prepared by our bank. We have not received anything in writing, but we expect to receive our PPP loan proceeds in ten days. It took us one week to get a loan number. Although there were some

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documents that we had to provide, it appears that our bank has processed our PPP loan request, without much underwriting.

The PPP requires business owners to spend at least 75% of the PPP loan proceeds on payroll costs, which includes employee compensation and owner's pay (sole proprietor, partner and/or member of LLC), employee benefit plans and retirement plan contribution. To encourage business owners to pay their employees during current crisis, the federal government is allowing the remaining 25% of the PPP loan proceeds to pay for rent, interest on loans (but not principal) and utilities (there are couple other items which could be paid but I don't think they are generally applicable).

You cannot pay your CPA fees from your PPP loan proceeds. Since you have to account on how you have spent the PPP loan proceeds, we recommend that you set up a separate bank account and all authorized uses be made from this new bank account. Please call us on proper accounting to substantiate authorized uses of the PPP loan proceeds.

The federal government prefers that you pay your own employees, if you plan to stay in business, rather than your employees claiming unemployment benefits. If you do this, then the PPP loan would be forgiven. This is done by compensating your lender through the U.S. banking system.

Our assistance to our business clients comes when the request for loan forgiveness takes place, in justifying the "authorized use of loan proceeds" to your bank. A great deal of documentation would need to be provided, to receive loan forgiveness after your PPP loan proceeds have been spent (more guidance to be issued by the SBA).

In addition to the PPP, the most significant tax provision of the CARES Act is the ability to carry your net operating loss ("NOL") from 2018, 2019 and 2020 back five years. Prior to the CARES Act, the NOLs could only be carried forward not back.

Although the IRS has yet to come out with additional guidance on the NOL five years carryback provision, in a nutshell, you could receive up to 150% of your annual taxable income back from the federal government, if you are in 30% federal income tax rate. California and many other states currently do not conform to this federal tax provision. For our clients, who have been complaining about paying taxes all



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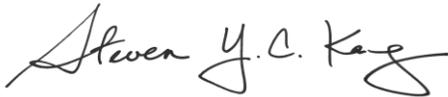
these years, you now could get back those taxes that you have paid in the past from the federal government, if you have losses in 2018, 2019 and 2020.

As the president has declared the national emergency, certain losses in 2020 can be applied in 2019 tax returns to claim refund, providing additional liquidity now, rather than in 2021. There are other provisions in the CARES Act, and in a general disaster setting, giving you additional liquidity to weather this crisis.

We will continue to post updates on the governments rescue plan on our website at www.ksgallp.com. To avoid confusion, posting on our website will only be done after official guidance are provided by the governments.

So, maintain your liquidity, do social distancing, be safe and let's keep the curve flat.

Sincerely,



Steven Y.C. Kang, CPA
Managing Partner
KSGA, LLP

Proverbs 15:23



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