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June 29, 2020

To Clients

REGARDING PPP LOAN RULES AND CHANGES

Dear Client,

Due to the continuing change in the rules for use of PPP funds and allowable expenses which will be potentially forgiven there have been significant changes in this process.

One of the main changes is a severe limitation on owner/employee compensation if the twenty-four-week period is elected.

The other change made is that a minimum of sixty percent of the PPP loan must be used for payroll, the rest for general expenses.

In reviewing numerous client applications and records, in general, I would advise that the twenty-four-week period be elected in order to more adequately include expenses in the forgiveness application.

I would further recommend at this point that forgiveness applications not be initiated until further clarification has been provided for this process. At the present time there has been no announced deadline for the forgiveness application to be completed. It appears that possibly January 2021 would be the proper time to complete the forgiveness application. In my opinion, this would be the prudent process for PPP application forgiveness.

As to income tax reporting the Internal Revenue Service has indicated that any amount forgiven on the PPP loan would be reduced from deductible, for tax purposes, expenses. My recommendation in this regard is to show the loan forgiveness on the tax return as a negative expense at the bottom line of all business expenses. California, however, has indicated that the amount of the forgiveness would be considered other income. For this reason, there will be a reconciliation between Federal and California tax returns with the net income in this regard unchanged.

We will attempt to keep you informed with changes as further clarification is received.

Sincerely,

Robert C. Davis, C.P.A.