

COVID-19 and Your Client's Economic Environment



Overview

Today we stand in a new economic environment, one where the norms of the business world have been suspended. The pandemic is confronting every level of the U.S. economy and our clients are facing unprecedented challenges. This presentation discusses:

The Economic Landscape under COVID-19

PPP, EIDL, SBA, and the CARE Act

Unemployment, Furloughs, and Compassionate Layoffs

Modifications for Support and Changes in Circumstance

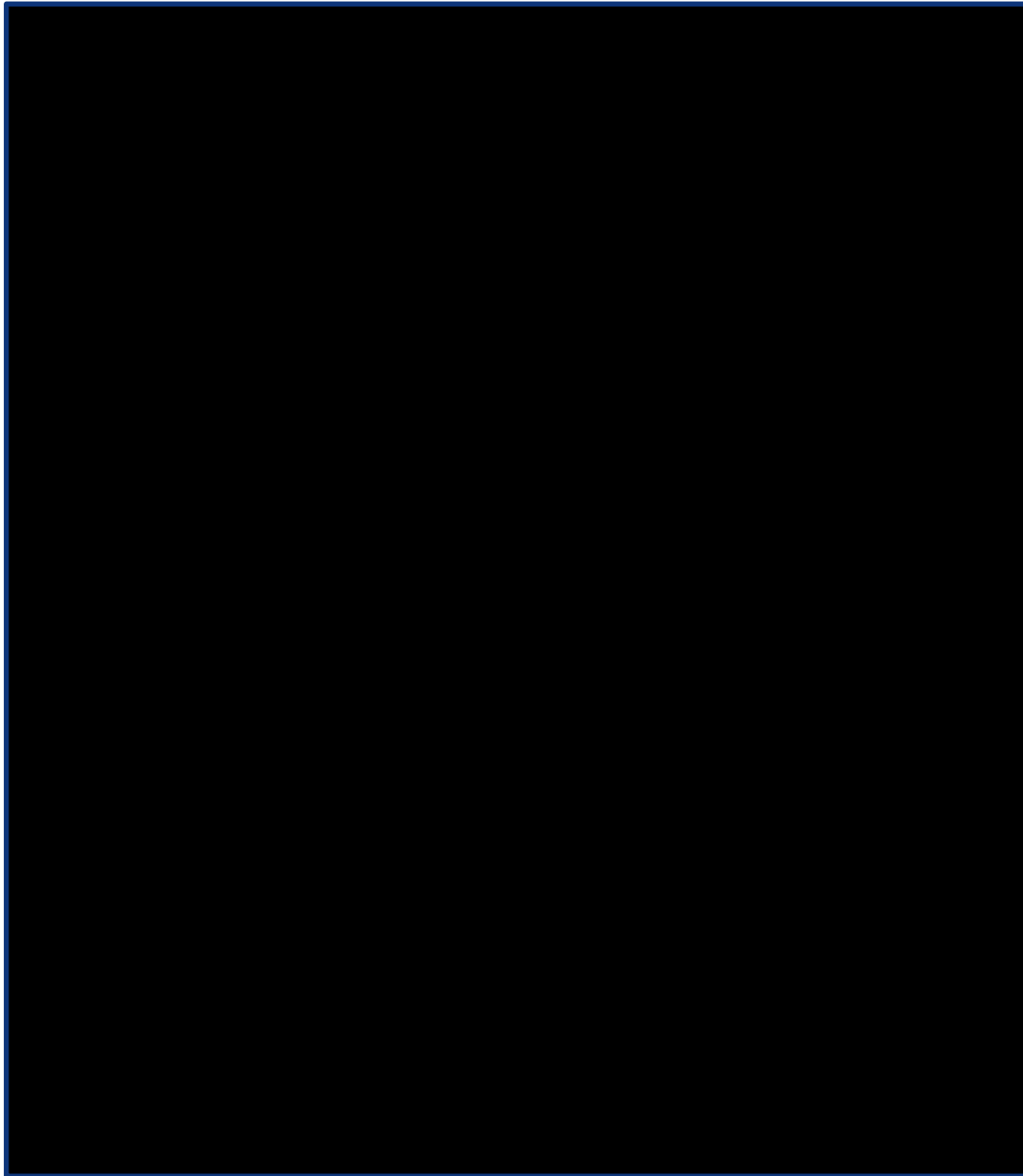
How does COVID-19 Affect the Value of a Business?

Presented by:

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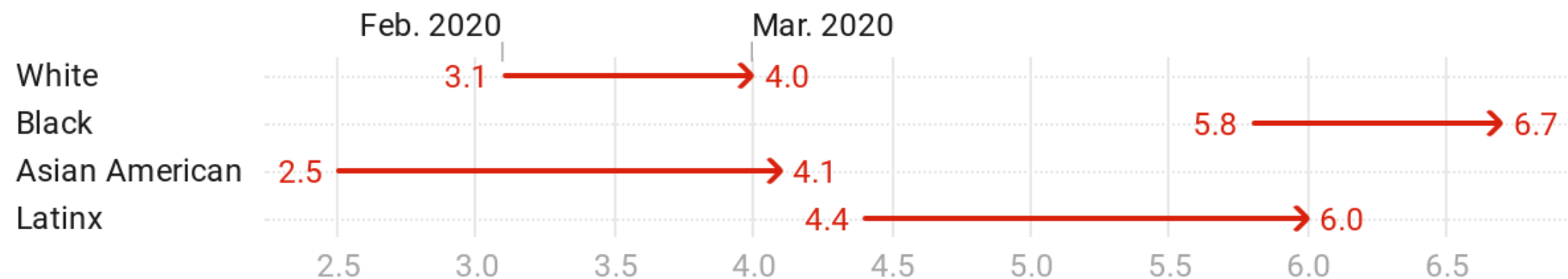
Andrew Hunt, MBA, CPA, ASA of White, Zuckerman, Warsavsky, Luna and Hunt, LLP

The Economic Landscape under COVID-19



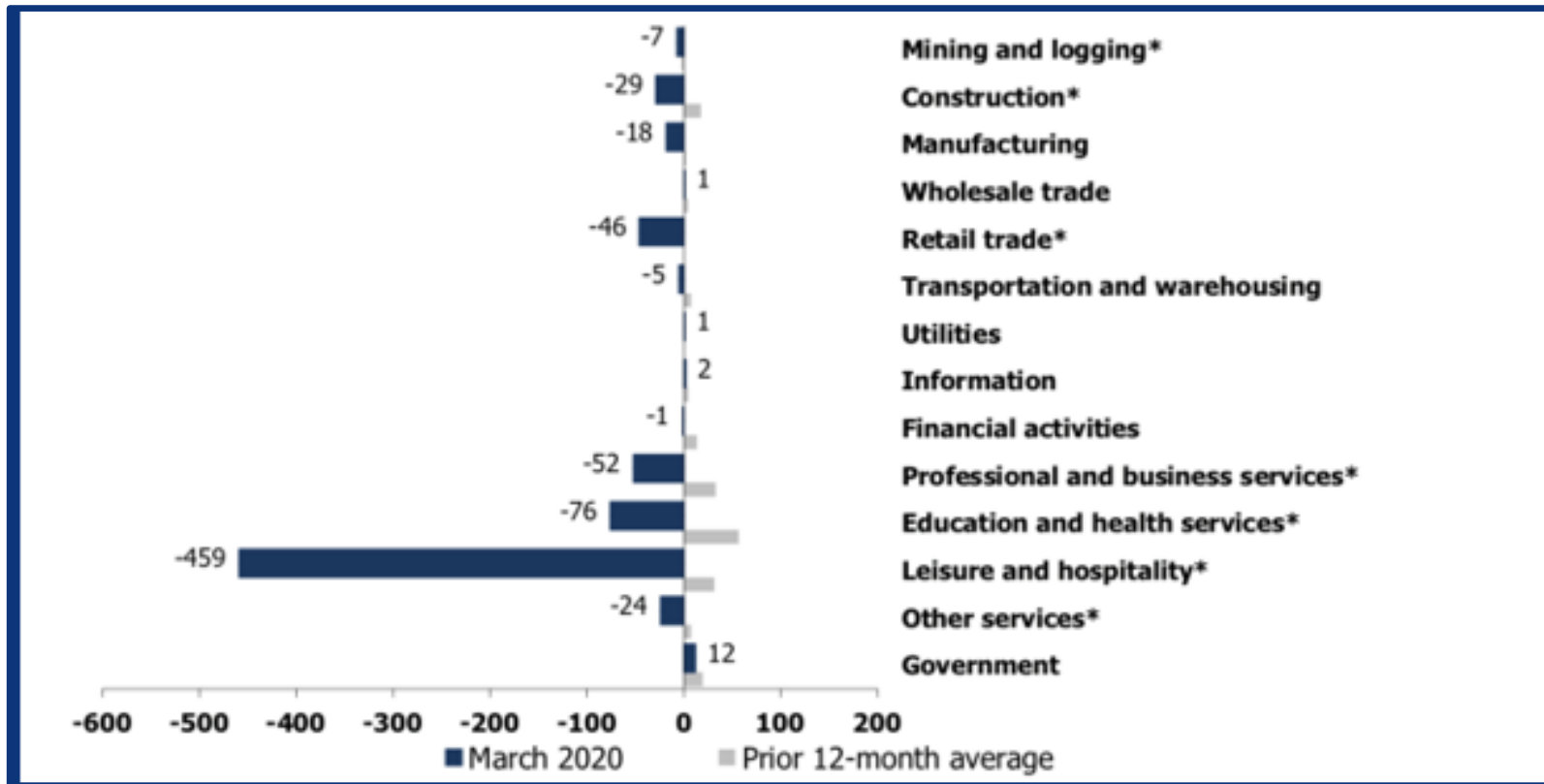
**More than 4 in 10
adults say they or
someone in their
household has lost
a job or taken a pay
cut due to COVID-19**

US unemployment rates (percent)



Employment in total nonfarm

Over-the-month change, March 2020

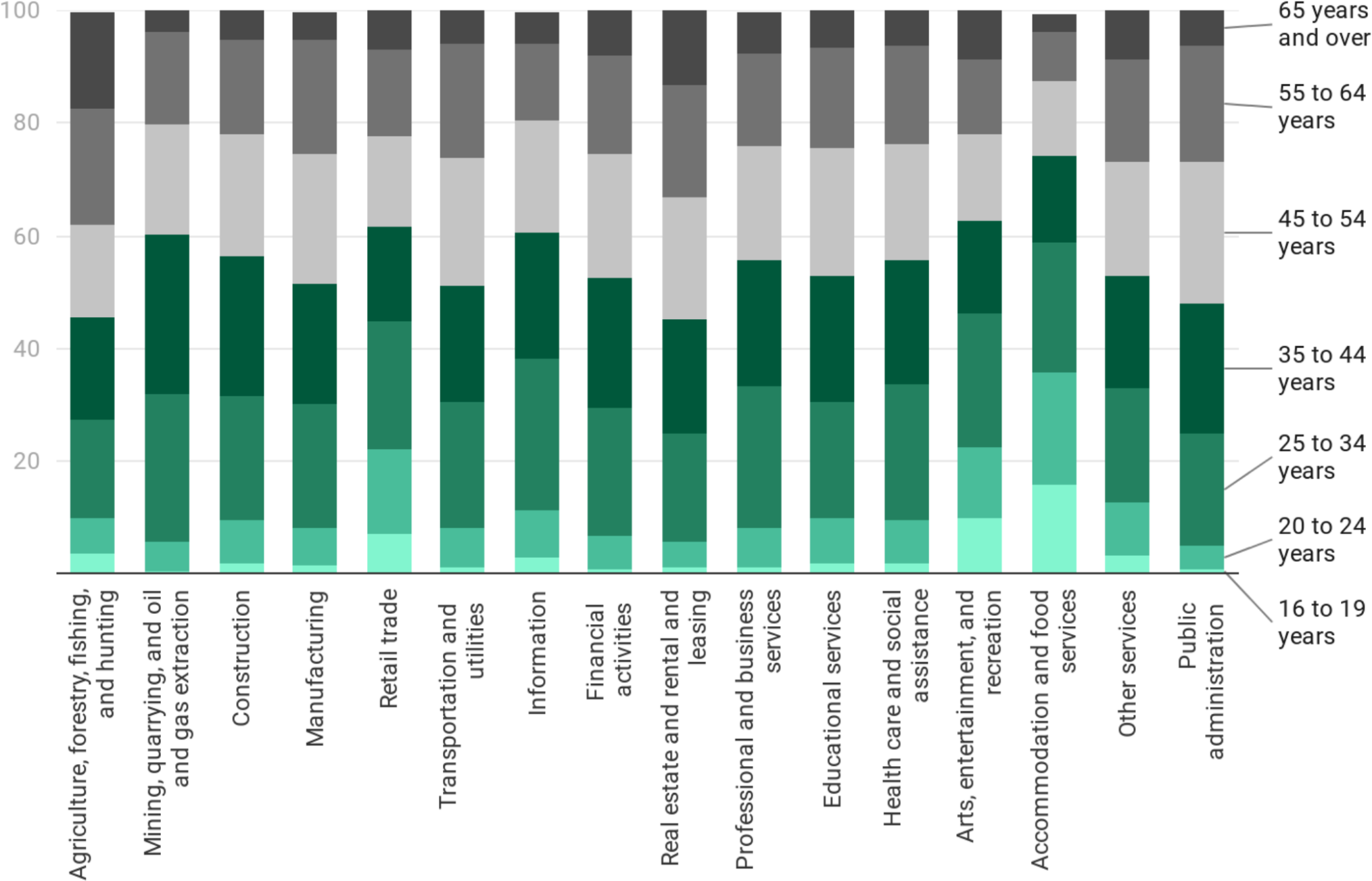


Bureau of Labor Statistics, Current Employment Statistics survey, April 03, 2020. Data are preliminary.

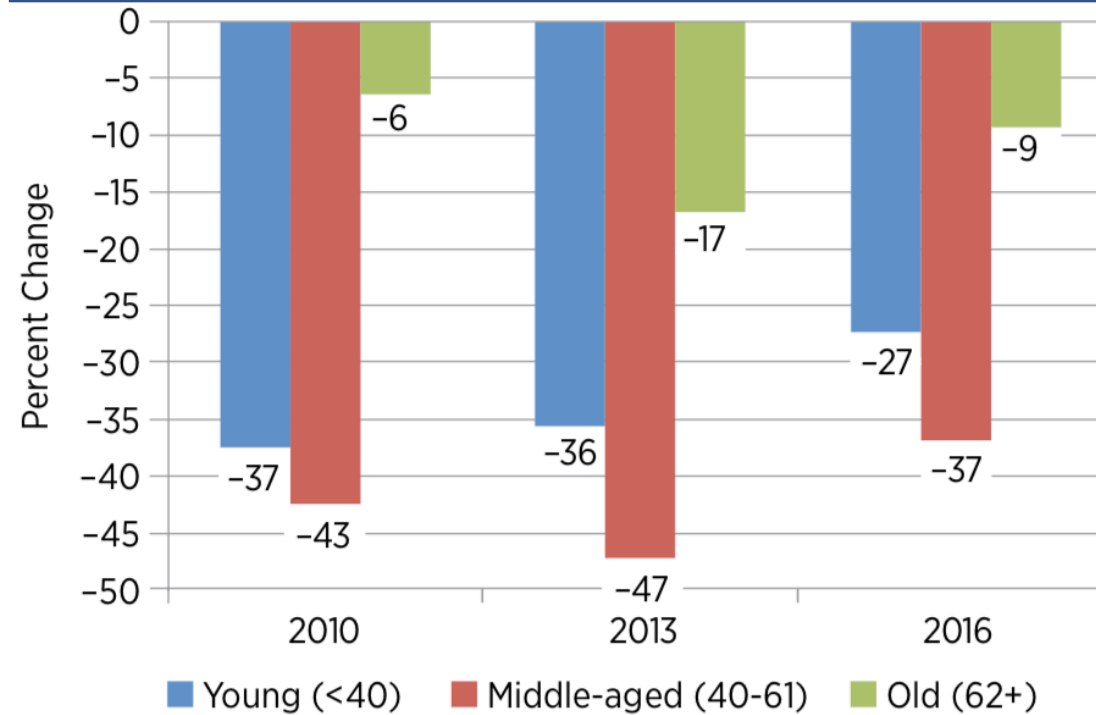
Industries Most Affected:

- Leisure & Hospitality
- Education & Health Services
- Professional Services
- Retail

Participation in industry by age (percent)



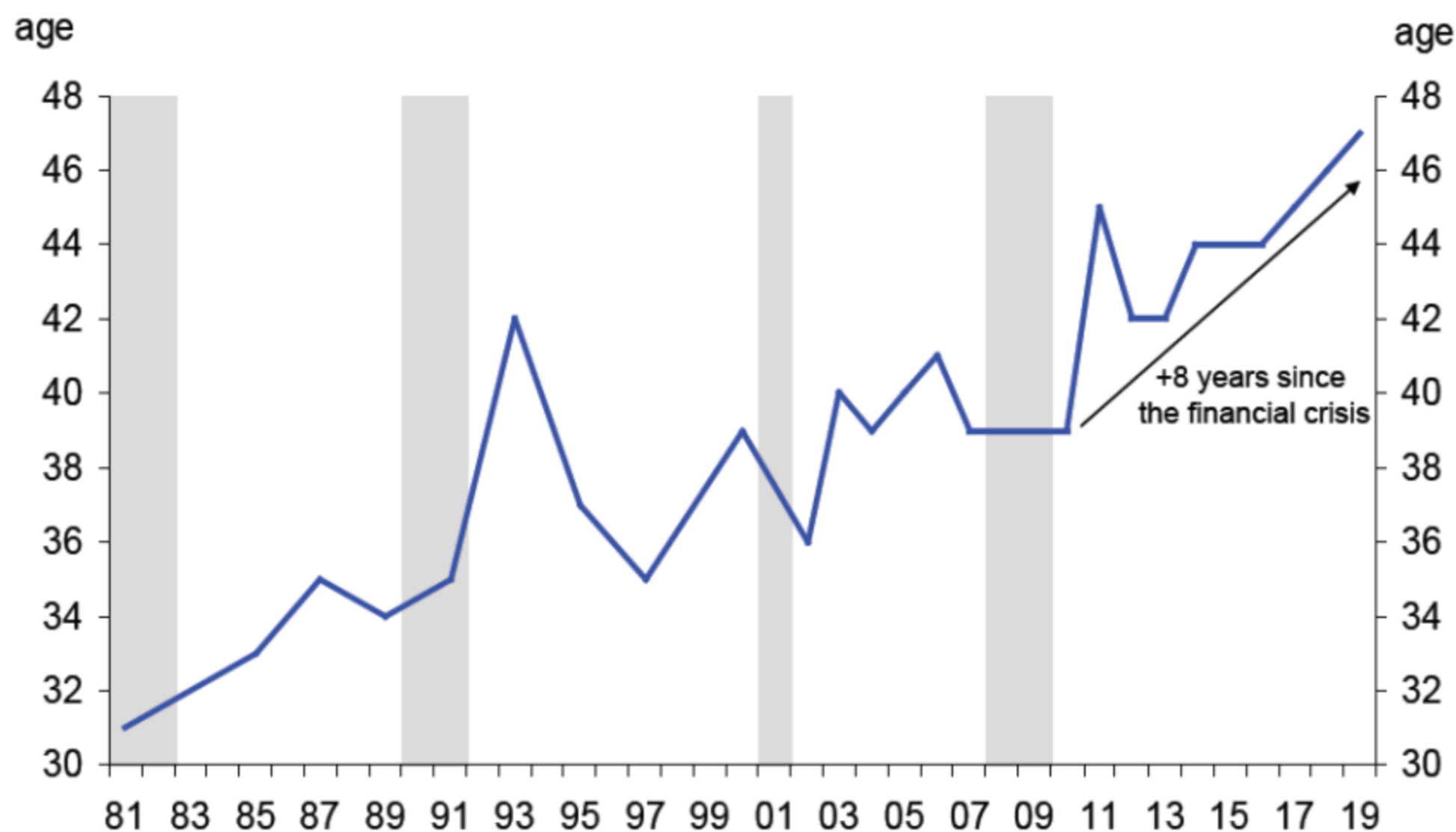
Change in Median Net Worth, relative to 2007



Note: Each age group's median net worth in 2010, 2013, and 2016 was compared to the same age group's respective level in 2007

Median age of US homebuyers up from 31 to 47

Median age of all homebuyers



PPP, EIDL, SBA, and the CARES Act

Paycheck Protection Program



Expanded
\$349 billion + \$310 billion

Economic Injury and Disaster Loan



U.S. Small Business
Administration

Expanded

\$562 billion + \$60 billion

Max Loan Down from \$2M to \$150k

The background of the slide is a photograph of the U.S. Capitol building in Washington, D.C., featuring its iconic dome and neoclassical architecture under a blue sky with scattered clouds.

The CARES Act

The Coronavirus Aid, Relief, and Economic Security Act

- Direct Payments
- FPUC
- Payroll Taxes
- Use of Retirement Funds
- 401(k) Loans
- RMDs Suspended
- Charity
- Small Business Relief
- Net Operating Losses
- Excess Loan Limitations
- Interest Expense Limitation
- Large Corporations
- Hospitals and Health Care
- Coronavirus testing
- States and Local Governments
- Agriculture

Unemployment, Furloughs, and Compassionate Layoffs

Unemployment

- California unemployment insurance
 - A joint state-federal program that provides cash benefits to eligible workers who are unemployed through no fault of their own. Benefits are based on a percentage of your earnings over a recent 52-week period.
- California lost 3.6 million jobs, about 18.8% of our labor force. We rank 15th among the other states in the nation.

Economists estimate that in April we reached a
16.1% unemployment rate

Furloughs

- What is a furlough?
 - A furlough generally refers to a mandatory period of time off work without pay initiated by the employer and intended to be a temporary or limited duration.
 - An employer may use a furlough rather than a permanent layoff or termination because the business downturn is expected to be temporary.
 - Typically health care benefits are still paid by the employer

Compassionate Layoffs

Seven Steps for Compassionately Laying off your staff:

- 1) Be Transparent
- 2) Be Ready
- 3) Have a Process
- 4) Rely on Experts
- 5) Use a Scalpel, not a Hammer
- 6) Keep the Keepers
- 7) Invest Accordingly

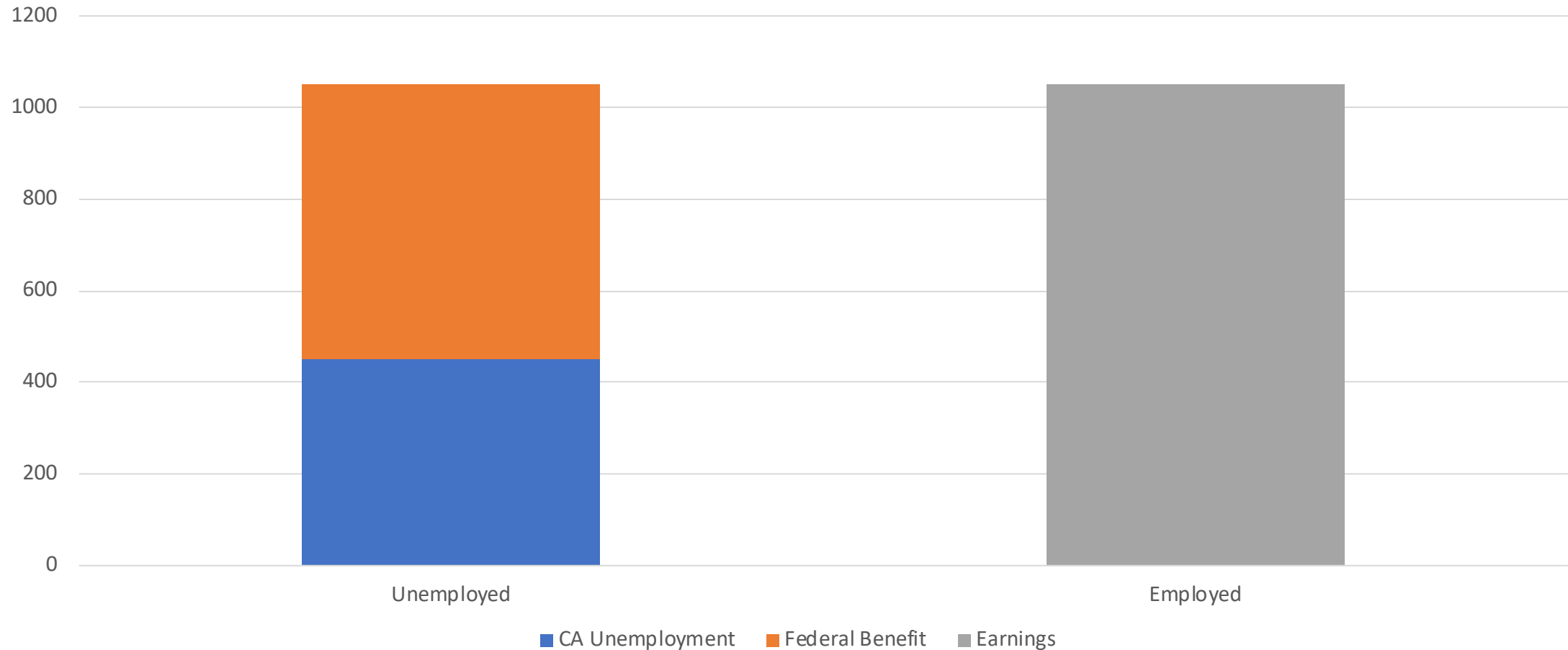
Compassionate Layoffs

- For many, unemployment compensation may be higher than regular wages. In California, those making \$54,000 a year or less are benefitting from a higher unemployment payout.
- California Maximum Weekly payout:
\$ 450 California Unemployment
+ 600 Federal Pandemic Unemployment Compensation (FPUC)
\$ 1,050 Maximum Benefit per Week

That's \$26.25 an hour, or \$54,600 annualized

Compassionate Layoffs

Comparison of Compensation
Unemployed vs. Employed



Modifications for Support and Changes in Circumstance

A Change in Circumstances

Quantifying Loss of Income

Preserving Retroactivity

How does COVID-19 Affect the Value of a Business?

Macro Shock Events – What makes this one different?

Types of Recoveries & Business Value – A base level understanding

**Different Businesses Effected
Differently – The market
segment is the primary key**

Dates of Value, Alternate Valuation Dates, and FC §2552 – Practical Considerations

**Subsequent Events and “Known
and Knowable” standard –
A needed variance?**

**“Real World Solutions –
Can we use these?”**

Normalized Earnings and Representative Periods – The Rubber Meets the Road

Reasonable Compensation and Performance Issues – Where does this topic fit into this mess?

PPP Loans and EIDL – Everyone's First Question

**Willingness and Needs to
Settle – One would think**

Income Available for Support Reports – Riddled Again

Support Considerations / Strategies – Simply Put