

CARE Beware

We are all experiencing an unusual time in modern history with the COVID crisis and the profound and mostly negative impact it is having on business. In the melee of information, misinformation, fluidity, and frustration, we thought it would be good to shed some light on a few related matters our firm has been monitoring. For the purposes of this article, we focus specifically on the CARE Act.

The first stimulus package came & went being fully subscribed in two weeks from release. In the course of doing so, a variety of the options offered within it changed dramatically in both the discovery of loopholes and apparent demand. We will circle back to these two elements later in the article.

As subsequent stimulus packages are considered, there could be more opportunities if you didn't participate in the first one. It is also possible subsequent packages could include financial options that were not included in the first package.

One of the problems we saw our clients/borrowers experience was application for assistance in certain options of the package precluded the same borrower from participation in other option(s). Since the government didn't simultaneously release all of the various options on the same day, borrowers could unwittingly jump at one option but then be precluded from a better alternative later. In hindsight there is real value in applying patient savvy in this environment.

The price of haste has been exacerbated by the further complication of the government significantly changing the stipulations and/or

benefits of certain options after borrowers had already applied. The Payment Protection Plan ("PPP") was perhaps the most noteworthy example. The PPP's "Easy \$10,000" was probably the most talked about component for many small business owners for several reasons, but within a few days of its release, the PPP benefit was reduced to only \$1,000/employee due to high demand for this particular option.

On a related note, it is so important to educate oneself on what is available. There were quite a few options available in the first stimulus package and the easiest one or the one talked most about may not be the best option for every business. The impacts of this crisis are going to damage our economy in Hawaii for several months to be sure. Even if the PPP has kept the \$10,000 benefit, the difference between survival and closure for many Hawaii businesses far exceeds this dollar amount.

An alarming trend we see forming already is the use of awarded funds for uses other than the original intent. Our firm was birthed in entrepreneurship, so we are big fans of thinking creatively and responsible capitalism, but there is a developing minefield attached to these stimulus funds. As expected, there will be fraudulent use of funds with such a massive government bailout with fluidly changing regulations on how said loans are utilized. We mentioned loopholes earlier and this is a good time to revisit the subject.

The priority has clearly been providing the country with an injection of dollars to mitigate the damage and establish a bases for recovery. As such nearly all of the energy at this stage is about getting dollars pumped into the marketplace.



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Only scant checks & balances are currently in place, but if you read the fine print – even on the applications – it is noticeable how the government is setting the stage for a round of accountability/financial scrutiny in the future.

The federal agencies like the IRS have extensive histories in closing loopholes and clamping down in areas where the intent of programs is being abused. This will never be more true than in a situation where trillions of dollars are being distributed. The urgency of today's environment should not be misconstrued as a future lack of accountability which is why we are recommending to all of our clients a strict adherence to the principles & intent of the stimulus funds.

It isn't easy at times because of the frenzied conversations about stimulus packages to notice the conversations starting to emerge about abuses, but they are out there and none of it will be lost on the IRS. We are working with our clients to prepare for what we see as tremendous opportunity coming out of this crisis but are also advising all of them to be cautious, thoughtful and principled in how they go about it.

3 Tips to Remember for Small Business

- ✓ **Connect with others in the same business scale and gain the benefit of collective wisdom**
- ✓ **Err on the side of conservative decision-making**
- ✓ **Now is not the time for “creative accounting”**

