COVID-19 SALES TAX DEFERRAL PROGRAMS

GOVERNOR NEWSOM EXECUTIVE ORDER N-40-20
CDTFA SMALL BUSINESS RELIEF PAYMENT PLANS
BACKGROUND

• 20+ years of local government experience.
• As Director of Client Services, leads the team in developing reporting advancements and efficiencies for clients along with providing meaningful presentations regarding both Sales Tax and Transaction Tax Districts.
• Prior to joining HDL, served the City of Costa Mesa for 13 years, the last 5 as Finance Director. During much of his tenure, he led the City’s strategic financial planning and decision-making and fulfilled the duties of City Treasurer.
• Spent time as an external auditor of government and non-profit entities specializing in assessment and documentation of internal controls and annual review and preparation of client’s Comprehensive Annual Financial Report (CAFR).
• Active member in municipal affairs with both the Government Finance Officers Association (GFOA) and California Society of Municipal Finance Officers (CSMFO).
CA SALES AND USE TAX DEFERRAL PROGRAMS

- Governor Newsom Executive Order
- CDTFA Relief Payment
Governor Gavin Newsom signed **Executive Order N-40-20** on March 30th, which allowed the CDTFA to offer a **90-day extension** of sales and use tax returns and payments for all businesses filing a return for less than $1 million in tax liability.
Qualified businesses will first have the ability to defer their 1Q20 tax liability payments until July 31, 2020 (end of the 2Q20 filing period). All businesses that qualify for this program are automatically enrolled into the 90-day extension program.
EO COMMON QUESTIONS AND ANSWERS

WHICH BUSINESSES QUALIFY FOR THE 90-DAY PAYMENT EXTENSION?
All businesses with a tax liabilities of less than $1 million annually are automatically enrolled into the program.

IS THE 90-DAY PAYMENT EXTENSION A ONE-TIME PROGRAM?
As of right now, yes. This is an extension that is consistent with CDTFA disaster statutes. The primary difference being taxpayers don’t need to request the extension or penalties and interest relief.
WILL A SIMILAR PLAN BE CREATED FOR SPECIAL TAX ACCOUNTS (ALCOHOLIC BEVERAGE TAX, CANNABIS TAX, CIGARETTE TAXES, ETC.)?
The program is currently only for sales and use taxes.

COULD THE 90-DAY EXTENSION EFFECT 2Q20 AS WELL?
Yes it could.
The CDTFA has utilized its emergency powers under Regulation 6593 to allow small business taxpayers to enter into a 12-month, interest-free, Installment Plan Agreement (IPA) for up to $50,000 of sales and use tax liability. This program is to offer a reprieve that will allow businesses to maintain cashflow during the crisis if they choose to utilize it. Small businesses are defined as businesses with less than $5 million in annual taxable sales.
The maximum amount that any taxpayer can defer is $50,000 under this agreement. Businesses that do not exceed the cap in the 1st Quarter of 2020 (1Q20), as an example, may add future sales tax liabilities up to the cap. The payoff terms will not extend beyond July 31, 2021. CDTFA will work separately with businesses that need a payment plan for a sales tax liability amount higher than $50,000.
WHEN WILL THE DEFERRED PAYMENT PLANS BEGIN AND END?
Assuming these businesses first take advantage of the 90-day deferral from April 30 filing deadline, deferred payments for 1Q20 will begin on July 31, 2020. Qualified business will be able to make 12 equal monthly payments, however no liabilities will be extended past July 31, 2021.

DOES THE $50,000 DEFERRAL APPLY TO THE TOTAL SALES AND USE TAX RATE INCLUDING STATE AND COUNTYWIDE RATES?
Yes, total taxes include all state, local and countywide rates.
CDTFA RELIEF PAYMENT PLAN Q&A

IF A RETURN IS NOT PAID IN FULL, WILL THE TAX BE REDUCED ACROSS ALL AGENCIES PROPORTIONAL TO THE AMOUNTS DUE EACH JURISDICTION AND LIKewise PAID BACK USING THAT SAME PROPORTION?

Yes, as money is received/paid, it is allocated in proportion to funds as reported on the returns filed. This is how both CDTFA’s legacy system (IRIS) and CROS is programmed.

WHAT IF TAXPAYERS WITH MORE THAN $5 MILLION IN ANNUAL TAXABLE SALES NEED THIS RELIEF?

The CDTFA will work with these taxpayers to establish an installment payment plan on a case by case basis.
WHAT IF TAXPAYERS OWE MORE THAN THE $50,000 LIMIT ON THE RELIEF PLAN AND STILL CAN NOT PAY?

If a taxpayer owes more than $50,000 and needs a payment plan for the amount over $50,000, CDTFA will work with these taxpayers to establish a regular installment payment plan.

### CDTFA RELIEF PAYMENT PLANS SAMPLE

<table>
<thead>
<tr>
<th>Sample Businesses</th>
<th>Tax Liability</th>
<th>Monthly Installment Payments</th>
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</thead>
<tbody>
<tr>
<td>Business A</td>
<td>$ 12,000.00</td>
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</tr>
<tr>
<td>Business B</td>
<td>$ 50,000.00</td>
<td>$ 4,166.67</td>
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<tr>
<td>Business C</td>
<td>$ 65,000.00</td>
<td>$ 4,166.67</td>
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</tbody>
</table>

*Note that Business B and Business C have the same payments because the maximum amount will be $50,000.*
WHAT DOES THIS MEAN FOR LOCAL JURISDICTIONS?

Executive Order – 90-day Deferral

• Sales & use tax revenue from 1Q20 could move into 2Q20. **This will keep revenues within the same fiscal year.** Month of May clean-up payment would be impacted.

• Sales & use tax revenue from 2Q20 could move into 3Q20. **This could move revenue from FY 19-20 into FY 20-21** – however 2Q20 sales activity is anticipated to be heavily impacted by the shutdown and therefore overall tax liabilities will be smaller.
WHAT DOES THIS MEAN FOR LOCAL JURISDICTIONS?

CDTFA Relief Payment Plan – 12-month Deferral

• Sales & use tax revenue from 1Q20 could first move into 2Q20 under the 90-day deferral, then be deferred for 12 months. **This could move revenue from FY 19-20 into FY 20-21.**

• Sales & use tax revenue from 2Q20 could first move into 3Q20 under the 90-day deferral, then be deferred for 9 months – paid by July 31, 2021. **This could move revenue from FY 19-20 into FY 20-21** – however 2Q20 sales activity is anticipated to be heavily impacted by the shutdown and therefore overall tax liabilities will be smaller.
SALES TAX – SHORT TERM CONCERNS

CASHFLOW CONSIDERATIONS – 1Q20 REVENUE PERIOD:

• March Advance – ‘normal’ due to prepayments from taxpayers

• **April Advance** – advance portion only reduced about 6% by CDTFA - due to number of prepayments and quarterly filings received to date
  • Posted on CDTFA’s website as of April 21 (now)

• **May Clean Up Payment** – will heavily depend on actual amounts collected and returns filed for 1Q20 – when the rubber meets the road

• June-July-August Advance and Clean Up payments – represent 2Q20 activity, much more impacted by shutdown
HdL COVID-19 RESOURCES
https://www.hdlcompanies.com/covid-19

ALL RELATIVE TO THE 1Q20 FORECASTED RECEIPTS:

LOCAL 1% TAX: 90-Day Extension, $50k Payment Plan

COUNTY TRANSPORTATION FUND/LTF: 90-Day Extension, $50k Payment Plan

SPECIAL DISTRICTS/TRANSACTION TAXES: 90-Day Extension, $50k Payment Plan

PUBLIC SAFETY/PROP 172 - 90-Day Extension, $50k Payment Plan
<table>
<thead>
<tr>
<th>COUNTY</th>
<th>AGENCY</th>
<th># OF ACCOUNTS POTENTIALLY ELIGIBLE</th>
<th>% OF TOTAL ACCOUNTS POTENTIALLY ELIGIBLE</th>
<th>$S POTENTIALLY ELIGIBLE</th>
<th>% OF TOTAL $S POTENTIALLY ELIGIBLE</th>
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<tbody>
<tr>
<td>Fresno County</td>
<td>Clovis</td>
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SAMPLE ANALYSIS FOR CITY OF CLOVIS, FRESNO COUNTY

BASED ON HdL’S INFORMATION, THE CITY OF CLOVIS COULD FIRST BE IMPACTED BY THE 90-DAY DEFERRAL OF 1Q20 SALES ACTIVITY:

• An estimated $1,787,757 could move from 1Q20 receipts into 2Q20 receipts.

OF THIS AMOUNT, THE CITY OF CLOVIS COULD THEN BE IMPACTED BY THE $50,000 PAYMENT PLAN DEFERRAL:

• Of the $1,787,757 deferred from 1Q20 into 2Q20, $778,694 could then be deferred over 12 equal monthly payments.
• This would have the impact of reducing FY 19-20 (when the tax should have been received), while increasing FY 20-21 (when the tax will be received).
Thank you!

Bobby Young, Director of Client Services
byoung@hdlcompanies.com
(714) 879-5000