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The American Institute of CPAs (AICPA) today released a set of [FAQs](#) to help CPAs and valuation professionals adjust business valuations based on the Coronavirus Aid, Relief and Economic Security (CARES) Act.

The set of questions address provisions professionals should consider when evaluating businesses that received funding or support under one of the CARES Act provisions. Specifically, it offers insight related to tax law changes as well as funding provided through the Paycheck Protection Program (PPP), Emergency Economic

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Valuations are forward-looking and there are multiple approaches to them. An income approach to valuation applies an opportunity cost of capital to an expected future benefit stream, such as cash flows or net income, while a market approach applies multiples, such as price-to-earnings, derived from reasonably comparable companies.

The provisions provided under the CARES Act have the potential to create one-time events that alter income and market inputs to value. The FAQs detail these issues and steps for valuation professionals to consider in the current environment.

For example, the CARES Act temporarily repeals the 80% income limitation for Net Operating Loss deductions going back to 2018, something that was removed under the recent Tax Cut and Jobs Act. This change allows some businesses to claim operating losses against taxes already paid and receive immediate tax refunds, increasing expected cash flows.

While that cash infusion benefits the business, it can also affect net income, causing a spike in its valuation given many currently constructed valuation models. The FAQs highlight this concern to assure valuation models are adjusted for any one-time tax benefits.

In addition to discussing the impact of tax law changes on valuation, the FAQs specifically cover how the PPP, EIDL and other short-term small business support provisions could impact valuations. Among the items to consider are:

- Whether PPP loans will be forgiven, and treated as a grant, or whether they are low-interest loans, and treated as debt, and how that determination alters projected net income or cost of capital.

- [How the SBA covering six-months of Small Business Debt Relief Program](#)

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The [AICPA Coronavirus \(COVID-19\) Resource Center](#) has additional information and resources related to the CARES Act. For a broader discussion on the impacts of COVID-19 on valuation, visit the [Valuation Services COVID-19 Resource Page](#).

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