

# Coronavirus – impact on small businesses

How the COVID-19 pandemic is affecting small and medium-sized enterprises (SMEs), and what options for relief are being made available to them

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**Producer**

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# Roadmap

- Why COVID-19 is hurting small businesses
- Policy responses

# Small businesses are facing a variety of problems, some of which they share with larger firms but to a greater degree



**Global supply chain disruptions:** Many businesses (especially those that rely on Chinese manufacturing) are facing bottlenecks in their supply chains or are themselves a component of a supply chain being disrupted by COVID-19.

## ***Supply chain disruptions are particularly painful for SMEs:***

- SMEs often rely on single suppliers, where as large firms do not
- Suppliers often deprioritize small businesses in favor of the major firms that make higher-volume purchases
- SMEs tend to have far less in cash reserves, making it difficult to switch to suppliers elsewhere or to diversify their supply chains



**Demand shock:** Consumer demand is currently severely constrained, in part by measures to slow the spread of the virus, such as social distancing, and in part due to uncertainty. The extent of these demand shocks has varied by sector, with consumer service providers suffering significantly.

## ***Demand shocks hit small business harder:***

- Because small businesses have tighter cash reserves, sudden drops in consumer spending can hurt them far more
- The median small business has daily revenues of \$381 and daily costs of \$374, and only has enough savings to survive 27 days
- Decreased demand is forcing small businesses to lay off employees as they struggle to pay fixed costs



**Credit crunch:** Many businesses have taken advantage of low interest rates during the last decade by taking on debt to finance their daily operations. These businesses will be particularly vulnerable to the credit crunch brought on by COVID-19. The sudden change in credit conditions makes it harder for businesses to access the credit they need or to refinance debt.

## ***Access to credit is critical for smaller businesses:***

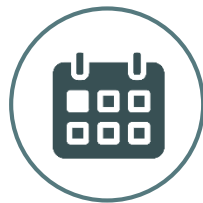
- SMEs tend to be more dependent on debt than larger businesses
- According to a Federal Reserve survey, 64% percent of small businesses self-report as struggling financially, with operating expenses (40%) and credit available (31%) being reported as the main reasons for their struggles

# Some policy responses to coronavirus have adversely affected small businesses

Steps that have been taken in the interest of public health have potential negative consequences for SMEs, and even programs geared towards small businesses have some enterprises worried



State and local governments across the country have ordered **shutdowns** of bars and restaurants. Some have required that all non-essential businesses close, and others have mandated that citizens – potential customers – **stay at home**.



Many small businesses **are scrambling to implement and afford emergency paid leave measures** passed by Congress before an early April deadline. SMEs are initially responsible for paying for the leave protections. While they will ultimately be eligible for tax credits, SMEs may not see refunds until 2021, which could be too late for many of them.



While many small businesses rely on credit, **some worry that the only federal lifeline offered to them so far – loans – may cripple them even further**, as they are uncertain about their ability to pay the debt back. Many SMEs are seeing their margins thinning and are scared about some terms included in the loan program, like putting up property as collateral.

*“It’s devastating for small business, unfortunately many of them will not survive. This is unlike anything we’ve ever seen, I mean even in the Great Recession, there was never a point when everything just stopped so we’re in unprecedented territory here”*

- Brian Calley, President of the Small Business Association of Michigan, on Governor Gretchen Whitmer’s order to shut down all non-essential businesses

*“Many of the business owners that are seeking capital are those that have been the most affected by the coronavirus – restaurants, event centers, bars. Those are the exact businesses that the lenders are removing from their credit box.”*

- Brock Blake, chief executive of Lendio

# Emergency paid leave requirements in H.R. 6201 primarily impact small businesses

	What employers does this apply to?	What is the required duration of leave?	What are qualifying reasons for taking leave?	What is the required wage replacement?*
<p><b>Paid sick leave</b></p> <p><b>Takes effect:</b> April 2, 2020</p> <p><b>Expires:</b> December 31, 2020</p>	<ul style="list-style-type: none"> <li>• <b>Private sector employers that have fewer than 500 employees</b></li> <li>• Public sector employers that have one or more employees</li> <li>• <i>Small businesses with less than 50 employees may be exempted if leave requirements would burden the business too much</i></li> </ul>	<ul style="list-style-type: none"> <li>• Two weeks of paid sick leave for full-time employees that meet leave eligibility requirements</li> <li>• Part-time employee leave is based on the average hours they work</li> </ul>	<ol style="list-style-type: none"> <li>1. Gov. mandated COVID-19 related quarantine</li> <li>2. Health care provider advised quarantine</li> <li>3. Experiencing symptoms or seeking diagnosis</li> <li>4. Caring for quarantined individuals <i>or</i> children who are at home due to COVID-19</li> <li>5. Experiencing a similar condition as defined by HHS</li> </ol>	<ul style="list-style-type: none"> <li>• <b>If home due to reasons 1-3:</b> Regular rate of pay, capped at \$511 daily and \$5,110 in the aggregate</li> <li>• <b>If home due to reasons 4-5:</b> 2/3 of regular rate of pay, capped at \$200 daily and \$2,000 in the aggregate</li> </ul>
<p><b>Family and medical leave</b></p> <p><b>Takes effect:</b> April 2, 2020</p> <p><b>Expires:</b> December 31, 2020</p>	<ul style="list-style-type: none"> <li>• <b>Private sector employers that have fewer than 500 employees</b></li> <li>• <i>Small businesses with less than 50 employees may be exempted if leave requirements would burden the business too much</i></li> </ul>	<ul style="list-style-type: none"> <li>• Ten weeks of paid family and medical leave for full-time employees that have been with the company for at least a month</li> <li>• Part-time employees are “eligible for leave for the number of hours that the employee is normally scheduled to work over that period”</li> </ul>	<ul style="list-style-type: none"> <li>• Unable to work or telework because caring for quarantined individuals or children who are at home due to COVID-19</li> </ul>	<ul style="list-style-type: none"> <li>• At least 2/3 of regular rate of pay, capped at \$200 daily and \$10,000 in the aggregate</li> </ul>

\*Private sector employers that have less than 500 employees are eligible for a 100% payroll tax credit to cover required leave wages and certain medical expenses

Sources: Ways and Means Republicans, Department of Labor.

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# Congress's three-phase response to the coronavirus crisis

Phase

1

Initial support and vaccine development

**H.R. 6074 — Coronavirus Preparedness and Response Supplemental Appropriations Act**

- \$8.3 billion in COVID-19 response funding for developing a vaccine and preventing further spread of the virus
- Became law on 3/6/20

Phase

2

Paid leave, unemployment and food assistance

**H.R. 6201 — Families First Coronavirus Response Act**

- \$100 billion in worker assistance, including emergency paid sick leave, food assistance, and unemployment payments
- Became law on 3/18/20

Phase

3

Major economic stimulus package

**H.R. 748 Stimulus package**

- Major stimulus package (~\$2 trillion)
- Loans and support to major industries, including airlines and small businesses
- Direct payments to individuals and families
- Passed Senate on 3/25/20; awaiting House vote

# Coronavirus small business relief programs exist at the federal, state and local, and corporate level



Loans are the most common option for relief, though some entities are also making grants available through their business assistance programs



**Federal loans:** The SBA is providing low-interest disaster loans of up to \$2 million dollars to small businesses, private non-profits, and small-scale agricultural cooperatives that have been hurt financially by COVID-19. The stimulus package approved by the Senate also includes \$350 billion in small business loans.



**Federal Reserve Main Street Business Lending Program:** The Fed announced that it is establishing a new program to support SMEs and make it easier for them to access credit. The program is meant to complement efforts by the SBA.



**IRS tax filing and payment extension:** The International Revenue Service (IRS) has delayed the April 15<sup>th</sup> tax filing deadline to July 15. Small business filers can delay up to \$1 million in taxes without incurring any penalties.



**State and local relief programs:** States and localities around the country are posting new information about their business assistance programs; these can typically be found on governors' websites and vary in their eligibility requirements, their type of relief (loan vs. grant), and their application processes.



**Corporate relief programs:** Amazon has set up a \$5 million Neighborhood Small Business Relief Fund to give grants to businesses in Seattle neighborhoods; Facebook has established a Small Business Grants Program and has committed to providing \$100 million in grants and Facebook advertising credits for up to 30,000 small businesses internationally.



# Many small business owners are turning to the Small Business Administration (SBA) for loans (1/2)



As part of its low-interest federal disaster loans program, the SBA is making available **Economic Injury Disaster Loans** for affected small businesses

## Understanding the program



**Purpose:** To help small businesses overcome temporary losses in revenue and other economic pains caused by COVID-19

**Process:** Governors make a request to the SBA for an Economic Injury Disaster Loan assistance declaration, which makes loans available statewide

**Eligibility:** Small businesses and private non-profits in all states and territories may apply for a low-interest loan to be issued directly by the government

**Loan amounts:** Eligible businesses may receive up to \$2 million in assistance; non-profits pay 2.75% in interest, small businesses pay 3.75%

**Usage:** Addressing costs that cannot be paid due to COVID-19, like fixed debts and payroll

**Repayment:** SBA offers long-term repayment, capped at 30 years; loan terms vary based on determinations about each individual borrower's case

# Many small business owners are turning to the Small Business Administration (SBA) for loans (2/2)



As part of the recently enacted stimulus, the SBA is overseeing the **Paycheck Protection program**, authorizing almost \$350 billion for small business job retention and more

## Understanding the program



**Purpose:** To keep workers employed by small businesses on payroll, and further help small business weather the economic fallout of the coronavirus

**Process:** Businesses can find the application on the Treasury Department CARES Act resource page; after gathering necessary information they should contact their bank or any SBA-approved lender to begin the process

**Eligibility:** Any business (including non-profits, veterans organizations, sole proprietors, independent contractors, and tribal businesses) that has fewer than 500 employees (number can vary depending on industry)

### Loan features:

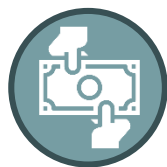
- Max. of \$10 million, 0.5% interest rate, 2-year maturity period
- Loan will be forgiven if business uses it for payroll costs (or other qualifying operating expenses) during the first 8 weeks after loan is taken out
  - It is expected that no more than a quarter of the forgiven should be used for non-payroll costs
- Initial payment deferred for six months
- No collateral or personal guarantees
- No fees payable to the SBA
- SBA provides a 100% percent guarantee of the loan

# Key small business provisions in the Senate stimulus package

*The bill has passed the Senate and will be voted on in the House on March 27*

**Some researchers estimate that small businesses could need up to \$1.5 trillion cash injections from the federal government, far more than the stimulus currently provides**

Appropriates **\$350 billion** in forgivable loans (capped at 4% interest) to small businesses (who can receive **up to \$10 million**) to prevent them from laying off their workers; these will be overseen by the SBA and administered by banks + other lenders



Creates a refundable **50% tax payroll tax credit** on worker wages; applies to all businesses, including small businesses

Codifies a **delay in employer-side Social Security payroll taxes** until 2021 or 2022



## Senate stimulus package



Designates some of the \$425 billion appropriated for the Federal Reserve's credit facilities to be used to **support small businesses**

Provides **expanded unemployment-insurance benefits** to sole proprietors, in addition to other self-employed workers



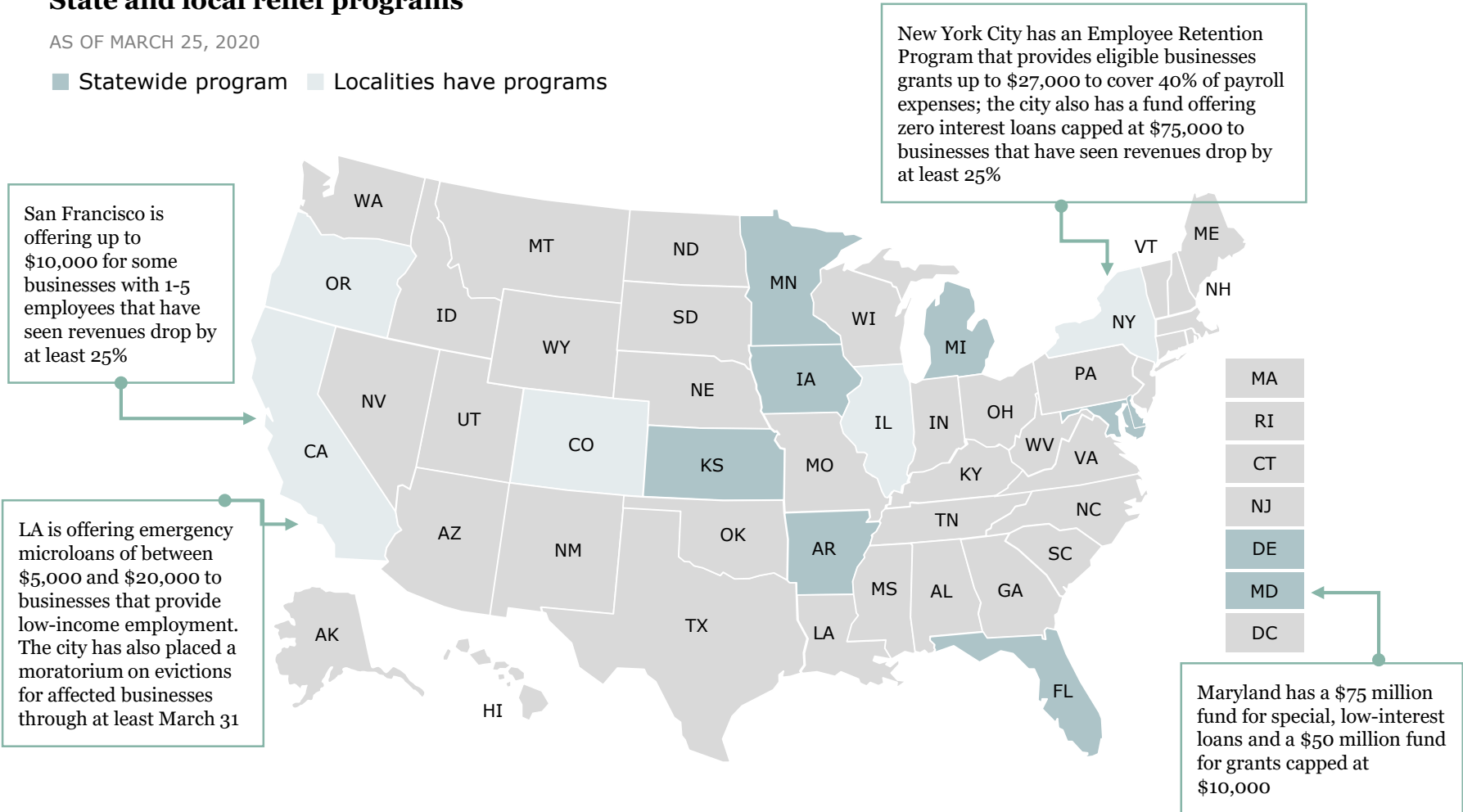
Establishes less strict operating loss-reduction rules, allowing businesses to **get more tax relief**

# Some states and cities have developed their own relief packages to help their small businesses survive

## State and local relief programs

AS OF MARCH 25, 2020

■ Statewide program   ■ Localities have programs



Sources: smartasset.