HELPING YOUR SMALL BUSINESS CLIENTS PLAN IN THE COVID-19 ERA

Information as of July 15, 2020

COVID-19 has had a dramatic impact on every aspect of our lives. In addition to the tragic loss of over 130,000 American lives, almost overnight, cities and towns shut down across the nation. Stores closed, offices shuttered, and houses of worship fell silent as Americans sheltered-in-place to help stop the spread of the novel coronavirus.

The near-nationwide lockdowns hit small businesses particularly hard. Unable to meet clients or open their doors to employees and customers, thousands of them were forced to suspend their operations and – in many cases – furlough or lay off workers.

In response to the crisis, the federal government rushed to roll out emergency support measures for the businesses and individuals affected by the pandemic. These programs have offered a lifeline to thousands of businesses and millions of households, but their complexity and patchy rollout have complicated federal efforts.

Today, as states continue to reopen, many small business owners are grappling with challenges ranging from making payroll to predicting the long-term sales outlook and understanding the tax implications of their participation in various federal relief programs.

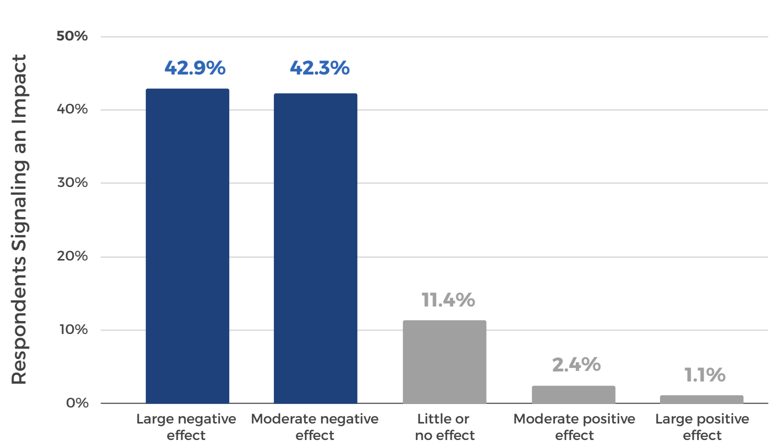
Financial advisors have a vital role to play in helping their small business owner and employer clients navigate these trying times and chart their course to a post-COVID world. In this guide, we will explore the key issues facing these clients and the various support programs available to them.

However, it is important to remember that your role must go beyond providing information. To truly serve your clients, you must help them balance their short-term concerns against the long-term realities facing their businesses. You must also ensure they do not lose sight of the importance of managing their personal financial needs as well as those of their businesses.

The Immediate Impact

COVID-19 – and the lockdowns that states and cities implemented to slow its course – have had a profound economic impact. According to the US Census Bureau's Small Business Pulse Survey (Figure 1) – a weekly survey of small enterprises nationwide – in late May, over 85% of small businesses reported a negative impact from COVID-19.

Figure 1: **How Small Businesses Have Reported COVID-19 Impacts**

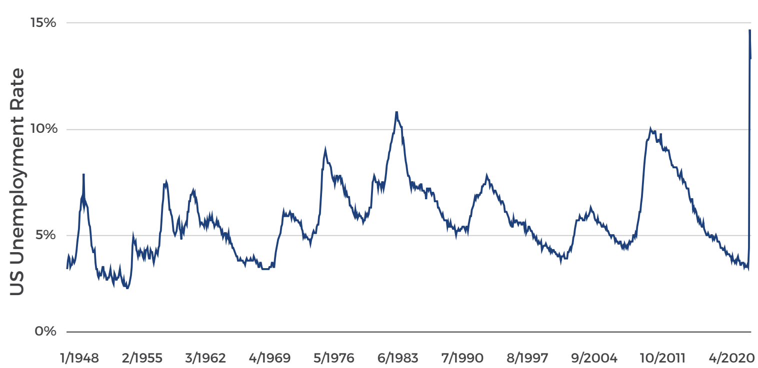


US Census Bureau. Small Business Pulse Survey. Week of May 24th.

While the June jobs report reflected some unexpected good news, unemployment remains historically high. Per June's Bureau of Labor Statistics' (BLS) report, – which covers the period to June 12, before the late-June surge in coronavirus infections – the US economy created a net 4.8 million jobs and the unemployment rate fell to 11.1% from May's 13.3% . This represents an improvement, but remains among the highest unemployment rates recorded since the Great Depression in the 1930s (Figure 2).

Economists warned that the jobs rebound may not be sustained after federal employment support programs – discussed in detail below – expire mid-year and cautioned that the resurgence of the coronavirus may lead to a fresh round of layoffs.

Figure 2: **US Businesses Lay-off and Furlough Workers**



Bureau of Labor Statistics. Unemployment Rate. June 2020.

While the return of 4.8 million jobs in June is encouraging, the March and April jobs report reflected the loss of 1.4 and 20.7 million jobs, respectively. Therefore – including the 2.5 million jobs gained in May – almost 15 million jobs have not returned since the start of the crisis. In addition, the labor force participation rate remained subdued at 61.5%, down from 63.4% in February (Figure 3). Further, around 10 million workers – many of them employed at small businesses – are working reduced or part-time hours as businesses wait to react to the recovery's strength.

The retail and hospitality industries – which include many small businesses and franchises – were hit especially hard by the crisis. Data released by the

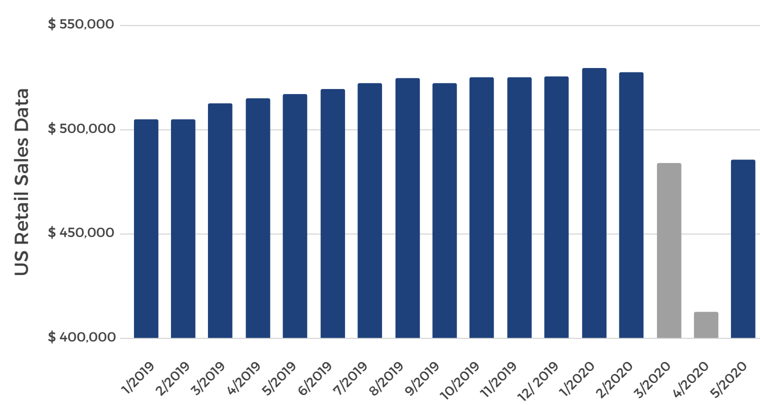
Figure 3: **US Labor Force Participation Collapses**

Bureau of Labor Statistics. Civilian Labor Force Participation Rate. June 2020.

Census Department in mid-May indicated that retail sales plunged by a record 16.4% in April, and in the first quarter, the leisure and hospitality sector lost around eight million jobs, while retail lost around two million. While retail sales rebounded by 17.7% in May, they remain below their February highs and, while some retail and hospitality jobs have returned, observers are concerned it may take some time for employment in the sector to return to its pre-crisis levels (Figure 4).

Initial earnings reports for the first quarter have been subdued. Some industries and companies have reported dramatic earnings falls while others held up reasonably well. Among small businesses, data remains limited but anecdotal reports suggest steep revenue declines and painful losses.

Figure 4: **US Retail Sales Slump From Stay-at-Home Orders**

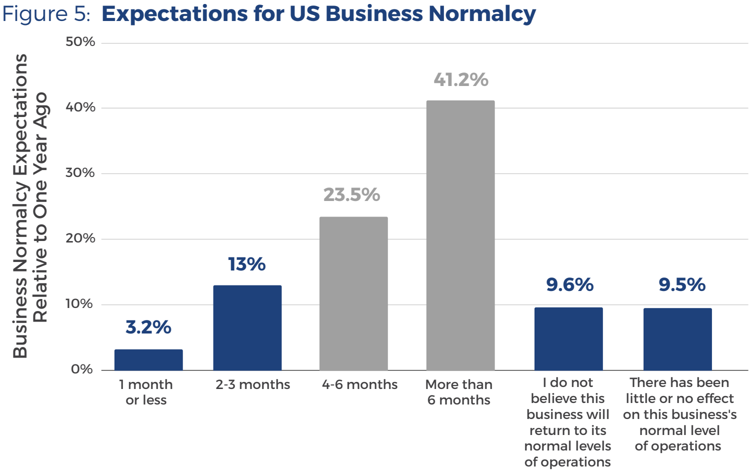


US Census Bureau. Monthly Retail Sales. June 2020.

Despite the high cost of the nationwide lockdown, business confidence has remained relatively resilient. After hitting 50.9 in February, the US ISM Manufacturing Purchasing Managers Index (PMI) fell to 41.5 in April before rebounding to 43.1 in May. These levels compare favorably to the levels seen during the last recession, when the ISM Manufacturing PMI hit a low of 32.9 in February 2009.

While the rebound is encouraging, most small businesses remain anxious. According to the Small Business Pulse Survey, at the end of May, over 40% of respondents expected that it would take six months or more for their business to return to normal and a further 10% reported that they do not believe their businesses will ever return to normal. The pandemic has been a hit of devastating proportions (Figure 5).

Figure 5: **Expectations for US Business Normalcy**



US Census Bureau. Small Business Pulse Survey. Week of May 24th.

Support for Small Business

In response to the crisis, the federal government has rolled out various support programs for small businesses, most notably those introduced in the Coronavirus Aid, Relief, and Economic Security Act (CARES Act). The CARES Act is a sprawling and complex piece of legislation that created many new programs aimed at both businesses and individuals. While this guide will focus on the business support programs, many of the programs targeted at individuals are also important for small business owners as they consider how best to survive the crisis.

For small businesses, among the most important provisions of the CARES Act are two loan programs: the new Paycheck Protection Program (PPP) and the expansion to the Small Business Administration's (SBA) Economic Injury Disaster Loans (EIDL) program.

PAYCHECK PROTECTION PROGRAM

The PPP is a key federal effort to support small businesses and sustain employment during the worst of the crisis. This program set aside $699 billion in government-backed loans for small businesses – $349 billion in the CARES Act and an additional $320 billion in the subsequent Paycheck Protection Program and Health Care Enhancement Act. These loans, which are issued by private banks, are targeted at businesses with fewer than 500 employees, as well as certain nonprofits, veteran organizations, and various types of self-employed workers. From its inception in early April through June 30, 2020, the program disbursed $520 billion in loans. Shortly after it expired at the end of June, Congress extended the program deadline to August 8.

PPP loans can be obtained for up to 2.5 times the borrower's average monthly payroll, subject to a limit of $100,000 annualized per employee and a $10 million limit overall. Under the law, only businesses that need PPP loans are eligible and businesses may be required to prove their need. However, guidance from the SBA indicates that those who took loans they did not need under the program could repay them with no further consequences, and that loans under $2 million are not likely to be targeted for review.

The interest rate on the loans is 1% and they mature after two years. No personal guarantees or collateral are required and lenders are expected to defer fees and repayments for at least six months but no longer than one year. For some of those who obtained their loans in April, this means repayments will begin in October/November and that loans must be paid in full by October/November 2022, unless they are forgiven.

PPP loans can be used for any expenses, but if the loan proceeds are used for the eligible expenses outlined below, borrowers may qualify for loan forgiveness. Importantly, only the proportion used for eligible expenses is forgivable.

Eligible expenses include payroll costs, mortgage interest, rent payments, and utility payments incurred over 24 weeks, starting from the date the proceeds are received. However, only 40% of the proceeds can be used for non-payroll costs (under the CARES Act, the limit was 25%, but this was revised by the subsequent Paycheck Protection Program Flexibility Act).

To qualify for loan forgiveness, borrowers must maintain the number of employees on their payroll and their wage levels.

Do I Meet The Requirement to Maintain Employees?

Calculate the average number of full-time equivalent (FTE) employees you had:

A: In the eight weeks following your initial loan disbursement

B1: From February 15, 2019 to June 30, 2019

B2: From January 1, 2020 to February 29, 2020

Calculate: **A/B1** And **A/B2**

Select the larger of those two numbers **(C)**.

If **C=> 1** you meet the requirement

If **C=< 1** you do not meet the requirement and your forgivable expenses will be reduced proportionally. For example, if your workforce is reduced to 80% of your original headcount, you will qualify for forgiveness on 80% of your loan proceeds. The rest must be repaid.

Example

Weston White is a business that provides services for fast food restaurants, including handling the disposal of used cooking oil and providing propane, cleaning supplies, and maintenance services for catering equipment. Between February 15, 2019 and June 30, 2019, Weston White employed 85 full-time workers. The owner, Barb White, decided to expand in the second half of the year and Weston White's headcount grew to 136 by January 1, 2020.

In March 2020, the state in which Weston White operates shut down most restaurants and demand for its support services declined significantly. Barb decided to lay off half of her workers, reducing her headcount to 68. She applied for and received a PPP loan in mid-April and used it to pay the wages for her 68 employees for the following eight weeks. Would this loan qualify for forgiveness under the PPP program? To answer this, Barb makes the following calculations.

Calculate the average number of full-time equivalent (FTE) employees you had:
In the eight weeks following your initial loan disbursement: **A = 68**
From February 15, 2019 to June 30, 2019: **B1 = 85**
From January 1, 2020 to February 29, 2020: **B2 = 136**

Calculate: **A/B1= 0.8** And **A/B2 = 0.5**

Select the larger of those two numbers: **C = 0.8**

In this case, C is less than 1. The loan will not qualify for full forgiveness. Instead, only 80% of the loan is likely to qualify as Weston White's headcount is 80% of its original level, assuming all other requirements are met.

In many cases, small businesses had already laid off or furloughed workers when the crisis hit in late February or early March. The PPP rules allow for this – borrowers are permitted to rehire furloughed or laid-off workers to meet the requirement for maintaining headcount. Workers who refuse to return to work can, in some cases, be excluded from the calculations.

Further, to qualify for forgiveness, borrowers must pay workers at least 75% of their normal salaries during the weeks after the loan was originated.

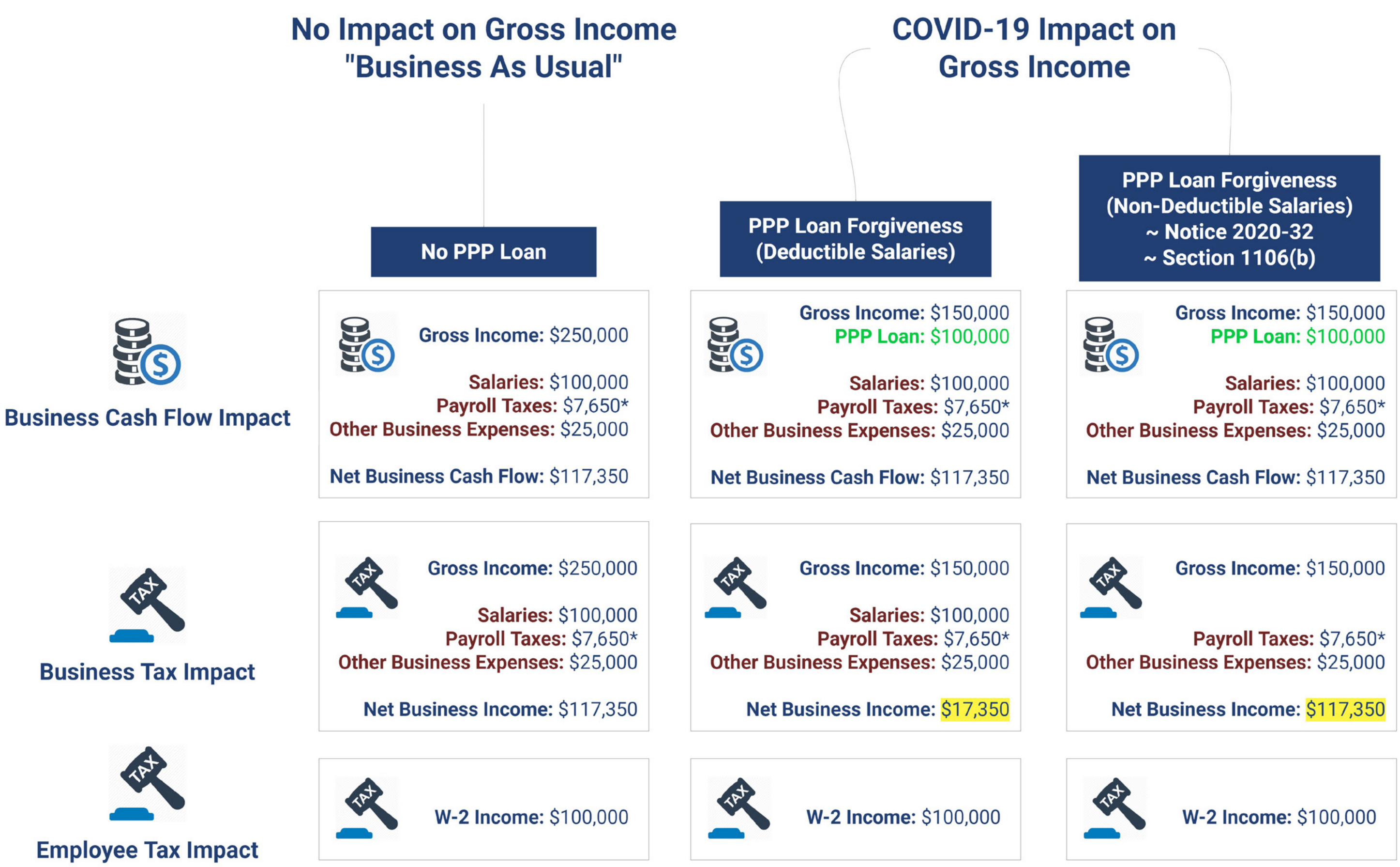
Small businesses that obtain PPP funds should also be conscious of their potential tax implications.

According to [Internal Revenue Service (IRS) Notice 2020-32], while the forgivable PPP loan proceeds will not be subject to taxation, expenses that are paid from those forgiven proceeds will not be tax-deductible.

This means that salary and wage costs, which are normally tax-deductible, would become taxable when paid for with PPP loan proceeds that are subsequently forgiven. The intention of this rule is to prevent "double-dipping" – receiving both tax-exempt income and allowing for a tax deduction related to the same funds. However, this could create an unexpected tax liability for borrowers.

Below is an illustration of three hypothetical scenarios - no PPP loan, a PPP loan plus deductible salaries, and a PPP loan with non-deductible salaries. The illustration assumes:

- The business in question normally earns $250,000 over the period
- The business pays salaries of $100,000 (plus payroll taxes) over the period
- The business incurs other expenses of $25,000 over the period



**Includes FICA Social Security and Medicare Taxes and Ignores FUTA and SUTA Tax Liabilities*

Column 1 illustrates what the impact would be on the business if no PPP loan was received and gross income was not impacted by COVID-19.

Column 2 shows what the impact would be if a $100,000 PPP loan was received, the funds were used solely to pay salary expenses, gross income was impacted by COVID-19, and these salary expenses were treated as deductible by the IRS. The result here is that the $100,000 of loan forgiveness is tax-free, as was originally intended by Congress.

Column 3 demonstrates what the impact would be if a $100,000 PPP loan was received, the funds were used solely to pay salary expenses, gross income was impacted by COVID-19, and these salary expenses were not deductible (Notice 2020-32). This new ruling effectively converts the loan forgiveness into taxable income for the small business owner.

According to the National Federation of Independent Business (NFIB), 80% of small business owners surveyed reported applying for PPP loans and 90% of those who applied have received funding.

For small business owners that have obtained - or are thinking about applying for - a PPP loan, there are many important things to consider. Most importantly, it is important to consider whether the loan makes sense for the business from a long-term, strategic perspective. While the NFIB reports that many small business owners are optimistic about the prospects for US economic recovery, it is important to consider the likely speed and extent of the recovery and how much an individual business can count on strong future cash flows.

ECONOMIC INJURY DISASTER LOAN (EIDL) PROGRAM

The SBA offers direct loans, known as Economic Injury Disaster Loans (EIDLs), to small businesses in designated disaster areas. The CARES Act expanded EIDL access – applications were opened up to additional categories of businesses and all 50 states were declared disaster areas – and today, most US small businesses qualify for these loans. The Act also modified the EIDL program to allow for the provision of emergency grants.

EIDLs have interest rates of 3.75% and are capped at $2 million. Loan terms are 30 years and loans below $25,000 don't require any collateral. In addition, under the CARES Act, EIDL applicants can request an emergency grant advance of $10,000, which is deducted from the loan total and is not repayable provided it is used to fund payroll, mortgages, lease payments, and paid leave.

The proceeds from EIDLs (excluding the emergency grant) can be used for ordinary operating expenses. However, EIDL funds cannot be used to replace lost revenues or profits, or for business expansion.

In the immediate wake of the crisis, the SBA was overwhelmed with EIDL applications and many applicants reported delays in the processing of their paperwork. Further, EIDL amounts are based on the economic injury suffered and the borrower's ability to repay, so many applicants received less in loan proceeds than they had hoped to. Funding ran out in April and applications were suspended before Congress apportioned additional funds for the enhanced EIDL program. Nevertheless, by mid-June, the SBA had approved over 1.1 million loans for a total of almost $80 billion.

Businesses could apply for both an EIDL and PPP loan. However, the same expenses cannot be paid using both EIDL and PPP loan funds. EIDLs are not forgivable – except the grant portion – but their long terms and low interest rates make them an attractive financing option. Importantly, EIDLs can be refinanced using forgivable PPP loans. If a small business owner applies for a PPP loan having already obtained an EIDL that was drawn down before April 2020 and used for payroll expenses, the EIDL balance must be carried over into the PPP loan and may be forgiven, providing the criteria outlined above are met. Essentially, the owner must obtain a larger PPP loan and use the additional funding to repay the EIDL loan. Business owners who obtained and used an EIDL to pay for non-payroll costs can apply for a PPP loan as usual. A business owner may, for example, use PPP loan proceeds for payroll and an EIDL to cover rent. In this case, the PPP loan would be unaffected by the EIDL.

EIDL Refinancing Using PPP Loan

Jared's Jam Joint is a mid-sized sports bar chain that was forced to close during a COVID-19 lockdown. The owner, Jared, applied for and received an EIDL for $500,000, which he used to cover payroll expenses.

Jared has since decided to apply for a PPP loan. His average monthly payroll costs are $250,000. Therefore, if approved, Jared would receive a PPP loan for:

$250,000 x 2.5	Maximum PPP loan amount
+ $500,000	EIDL loan amount to be refinanced
$625,000	

Again, there are tax implications to using PPP funding for payroll expenses which should be carefully considered.

TAX CREDITS AND OTHER SUPPORT

In addition to loan programs, the federal government also rolled out various tax credits intended to help small businesses.

Deferral of Employer Payroll Taxes

Under the CARES Act, employers and self-employed individuals can defer the payment of the employer share of Social Security taxes – the deferred tax would be paid over the next two years, the first half by December 31, 2021, and the second half by December 31, 2022. Importantly, business owners who take out PPP loans cannot defer payroll taxes once the loan amount has been forgiven. However, the amount accumulated through the date the loan was forgiven can be deferred.

Employee Retention Credit

This credit is intended to encourage employers to keep workers on the payroll even when they are not working due to the effects of the COVID-19 outbreak.

It is a fully refundable credit against an employer's payroll taxes for wages and salaries paid from March 12, 2020, through the end of the year – importantly, self-employment taxes are not eligible for this credit. The amount of the credit is equal to a maximum of 50% of the first $10,000 of qualified wages paid to eligible employees.

To qualify, an employer must have fully or partially suspended operations in 2020 due to a state or city order or experienced a fall in gross receipts of 50% or more year-on-year in any quarter in 2020. The credit applies to any affected quarter, starting with the quarter in which the business was shut down or experienced a 50% year-on-year fall in receipts and ending in the quarter in which the business reopens or receipts exceed 80% of the corresponding calendar quarter of 2019.

Qualifying for Employee Retention Credit: Hypothetical Business				
Quarter	**% of Comparable Quarter 2019 Receipts**	**Government Shutdown Order**	**Qualify Under "Gross Receipts" Test**	**Qualify Under "Government Orders" Test**
Jan-Mar 2020	60%	Yes	No	Yes
Apr-Jun 2020	30%	Yes	Yes	Yes
Jul-Sep 2020	45%	No	Yes	No
Oct-Dec 2020	60%	No	No	No

In the table above, the hypothetical business qualifies under the government orders test in the first quarter, under both tests in the second quarter, under the gross receipts test in the third quarter, and does not qualify in the fourth quarter.

For businesses with over 100 full-time employees, qualified wages are those paid to workers who are not providing services due to COVID-19. For those businesses with 100 or fewer full-time workers, all wages qualify. Qualified wages may include the employer's contribution to health insurance.

The credit is applied to the employer's payroll taxes and is fully refundable – it will be refunded to the employer after subtracting payable taxes. Employees cannot avail of this credit if they take out a PPP loan.

Family & Sick Leave Credit

Under the Families First Coronavirus Response Act (FFCRA), Congress requires employers with fewer than 500 employees to provide 80 hours of paid sick leave and childcare leave when schools are closed or childcare services are unavailable. To cover the cost of this benefit, the FFCRA provides employers with refundable payroll tax credits.

Specifically, employers receive a 100% tax credit equal to the amount of benefits they must pay under the FFCRA, including any health insurance costs. Further, the FFCRA allows employees to retain and access funds they would otherwise have used to pay payroll taxes to cover the relevant benefits. However, PPP funds cannot be used to pay for family and sick leave wages if the business expects to get a tax credit for those wages, again, to avoid double-dipping.

Charitable Gift Deduction

The CARES Act expanded the charitable gift deduction for corporations to 25% of taxable income from 10%.

Net Operating Loss Deduction

The CARES Act increased the tax deduction for net operating losses (NOL) to 100% from 80% for 2018, 2019, and 2020. It also suspended the $500,000 limit on tax-deductible NOL until 2021. NOL from 2018, 2019, and 2020 can be carried back up to five years, allowing for retroactive tax refunds. Losses from those years can be carried forward for up to 20 years but will be subject to the 80% limit.

Other Tax Changes

The CARES Act introduced various other tax changes. It increased the amount of interest expenses businesses can deduct to 50% from 30% for 2019 and 2020. It also provided for businesses to immediately start writing off costs associated with improving the interior of nonresidential buildings, effectively increasing the tax deduction for property improvements to 100% of the cost. The Act also removed the cap on the deduction for business losses on individual returns from 2018 through 2020. Business owners who had their losses capped in 2018 and 2019 can file amended returns to receive retroactive refunds.

MAIN STREET LENDING PROGRAM

In addition to the fiscal supports rolled out by Congress, the US Federal Reserve has announced it will establish a $500 billion Main Street Lending Program to support lending to small businesses.

The loans made under the various Main Street Lending Program facilities will have five-year terms and will allow businesses to defer principal payments for the first two years of the loan. However, unlike PPP loans, these loans will not be forgivable. Private banks will underwrite and extend the loans and can then sell up to 95% of the resulting loan assets to a Fed special purpose vehicle established for the program.

The program is controversial. By early July, few banks had signed up to the program, the Fed had revised the loan terms twice in a bid to balance the need to make the loans attractive for banks and businesses while avoiding excess risks, and no loans had been disbursed.

STATE PROGRAMS

Many states and large cities have rolled out their own small business support program, including various grant and microloan programs and state and sales tax reliefs and credits. Small business owners and their advisors should contact local authorities to determine what state or city programs are available.

EXPANDED UNEMPLOYMENT BENEFITS

One key provision of the CARES Act was an expansion of unemployment benefits. Specifically, the CARES Act established:

- Federal Pandemic Unemployment Compensation (FPUC), which pays an additional $600 a week to those receiving unemployment benefits above the compensation paid by the state
- Pandemic Emergency Unemployment Compensation (PEUC), which allows people who have exhausted their unemployment benefits to continue receiving unemployment for another 13 weeks – most states pay unemployment for 26 weeks, but the duration ranges from 12 weeks in North Carolina to 28 weeks in Montana; the PEUC extends the duration
- Pandemic Unemployment Assistance (PUA), which extends unemployment insurance coverage to people who are not normally covered such as contractors, the self-employed, and gig workers

These provisions are scheduled to expire on July 31, 2020, although Congress is debating their extension.

In the meantime, they have had material consequences for small businesses. For example, the enhanced level of unemployment benefits may mean that employees are better off if they are laid off, rather than kept on the payroll. It may also be possible for sole proprietors themselves to apply for unemployment benefits under the PUA. Finally, there is anecdotal evidence that some small businesses are having trouble getting workers back to work because they are earning more on unemployment than they earned in their jobs.

Guidelines for Safe Reopening

For small business owners engaged in reopening their businesses, a core need is guidance on how to do so safely. The federal government and Centers for Disease Control and Prevention (CDC) have provided guidelines for workplaces suggesting that there should be at least six feet of space between individuals wherever possible. The CDC also recommends the use of masks, and many states and cities have published guidelines on when masks must be worn. The CDC and federal guidelines also suggest installing physical barriers between people when possible, closing communal spaces such as break rooms, staggering shifts to minimize the number of people in the office or store at a time, and staggering breaks so that workers do not crowd together over break time.

Unfortunately, however, specific guidelines for various states, cities, and industries are changing daily and it can be challenging for small business owners to understand what they must do. In general, there are four key elements to a safe reopening:

1. **Physical distancing** – ensuring that people are kept at least six feet apart and minimizing opportunities for crowding
2. **Employee wellness** – providing workers with personal protective equipment such as masks or face coverings and gloves, and implementing measures such as temperature checks and symptom self-reports to try and identify sick employees, who should then remain at home until they are well
3. **Safety measures for handling items** – this includes things such as requiring cashless payments at retail stores to minimize the need to touch cash, setting up distanced "pick-up" zones where customers or employees can pick up packages or goods without interacting with any people, and frequent cleaning of items that are shared, such as door handles
4. **Clear communication** – workers and customers should clearly understand the safety measures that are in place and why they are necessary

Small business owners should identify any industry-, state-, or city-specific safety rules that may apply to their businesses and make sure that they comply fully with the law. Failure to do so may result in fines or – should illness spread among workers or customers – lawsuits and lost business.

It is vital for small business owners to carefully consider the impact safety measures will have on their business. For example, a restaurant owner may find that to comply with local safety guidelines, their restaurant must operate at only 40% capacity. This may mean that revenues will no longer be sufficient to cover the costs of running the restaurant. Permanent layoffs may be needed, or in the worst-case scenario, the business may not be viable under the new guidelines. In less severe cases, the increased costs associated with complying with safety rules may mean that prices must be reassessed.

Personal Finance During the Crisis

While small business owners may be focused on the future of their business, it is important that they also consider their personal finances. Financial advisors should ensure that their small business owner clients are aware of the various COVID-19 financial supports available to individuals and should work with them to identify appropriate personal financial actions to be taken.

Below is a checklist of some of the financial options created by COVID-19 legislation and how they may help your clients.

Individual Support Measures

Measure	Purpose	May be helpful for:
Required minimum distributions (RMDs) from traditional Individual Retirement Accounts (IRAs) and employer-sponsored retirement plans are suspended for 2020.	To avoid forcing seniors to liquidate part of their retirement portfolios during a market downturn	Those who have experienced significant portfolio losses and who have no immediate need for cash – they may choose to suspend their RMD to allow their portfolios to recover.

Individual Support Measures		
The 10% tax penalty applied to early distributions from IRAs, 401(k) plans, 403(b) plans, and 457(b) plans will be waived if: • The individual, their spouse, or their dependent has been diagnosed with COVID-19 • The individual experiences adverse financial consequences due to quarantine, layoffs, furloughs, or reduced working hours • The individual cannot work due to lack of child care Any distributions are still subject to income taxes, but the payment of these taxes may be spread over three years and are waived if the individual repays the amount distributed within three years.	To give individuals affected by COVID-19 access to cash from their retirement accounts with no adverse tax consequences	Those who have been directly affected by COVID-19 and require cash, and are confident they can either repay the withdrawn amount or afford the income taxes created by the distribution.
The maximum allowable amount for 401(k) loans has been increased to the lesser of $100,000 or 100% of vested assets.	To give individuals access to cash to deal with the adverse consequences of COVID-19	Those who need cash to cover COVID-19 losses and who are comfortable with taking on additional debt

Clients should be cautious about pursuing these various financial options. For example, a client may want to take out a 401(k) loan to keep their business afloat during the crisis. However, if the long-term prospects for the business are poor, individuals should avoid taking on personal debt that they may struggle to repay should the business fail.

Navigating the Crisis

To navigate this crisis, your small business owner clients must take urgent, thoughtful action.

The first step is to prioritize. This means setting aside emotional considerations and identifying the most important and urgent issues. For some small businesses, the crisis poses an existential threat. While owners may be focused on immediate and urgent matters such as covering rent and payroll payments and implementing plans for safe reopening, it is important to consider long-term questions such as:

- To what extent are sales likely to recover and over what period?
- Do present staffing levels match expectations for future business needs?
- Will future cash flows be sufficient to cover the costs of borrowing to meet present cash needs?

It is important to engage with clients, suppliers, landlords, workers, and bankers to coordinate the response to the crisis. Many businesses have demonstrated exceptional creativity in finding new ways to serve clients and work with suppliers to make sure that they can rebuild as the country reopens. Encourage clients to engage with all relevant stakeholders as they manage financial challenges and plot strategies for the future.

Importantly, small business owners must focus on maintaining liquidity and cash flows. Many businesses are struggling because the sudden cessation of cash inflows was not matched by an end to cash outflows. Programs like the PPP, EIDL program and various federal and state tax credits are designed to help businesses manage their liquidity disruption until, hopefully, business resumes and cash flows normalize. They do so by boosting available cash reserves to help offset outflows. Other options for generating cash flows may include short-term bank lines of credit or accounts receivable financing.

But, in addition to seeking out sources of cash like PPP loans, businesses must also focus on outflows. Negotiate with landlords or banks for payment breaks, pause inventory purchases if possible, and take any other measures available to preserve cash.

Above all, businesses must balance short- and long-term considerations. Today's cash crunch may be solved by taking out loans. However, the additional interest and principal payments this entails may damage the business over the long-term by increasing costs and reducing opportunities for productive investment. Furthermore, it may not make sense to obtain financing to cover payroll for employees who may be laid off in the future if the recovery is slower than anticipated. Taking on debt is complex and should not be done without careful thought about its long-term implications and a clear plan for managing the debt over its lifetime.

Finally, for some small businesses, navigating the crisis may mean finding an exit strategy that minimizes personal losses to the small business owner. With economic activity constrained, it is a challenging time to find potential buyers for a small business that faces an uncertain future, and many business owners will be understandably reluctant to wind up operations. Business valuations have taken a hit, further complicating the process of exiting. Nevertheless, it is important to take a balanced, long-term view on the prospects for the business and to act accordingly.

THE ROLE OF ADVISORS

Advisors have a crucial role to play in supporting their small business clients through this crisis. They can act as a sounding board for clients wrestling with difficult strategic questions and can provide a crucial service by helping clients understand how their personal finances may be impacted by the crisis.

Importantly, advisors should remind clients to think about their long-term plans and how those may be impacted by changes to the business environment. For example, clients approaching retirement, who may be seeking ways to exit their business or to convert business revenues into retirement funding through a succession process, must think carefully about how to ensure that these plans are not derailed by the current crisis. This is the perfect, and necessary, opportunity to educate yourself!

While small business owners will need to consult expert lawyers and tax advisors on technical matters related to federal support programs, all advisors can help clients find and access information about those programs and how they may fit within the broader strategic plan for their businesses.

By helping clients balance short-term needs against long-term goals, and personal financial concerns against business cash flow challenges, advisors can help their small business clients emerge from this crisis ready to tackle the next chapter.