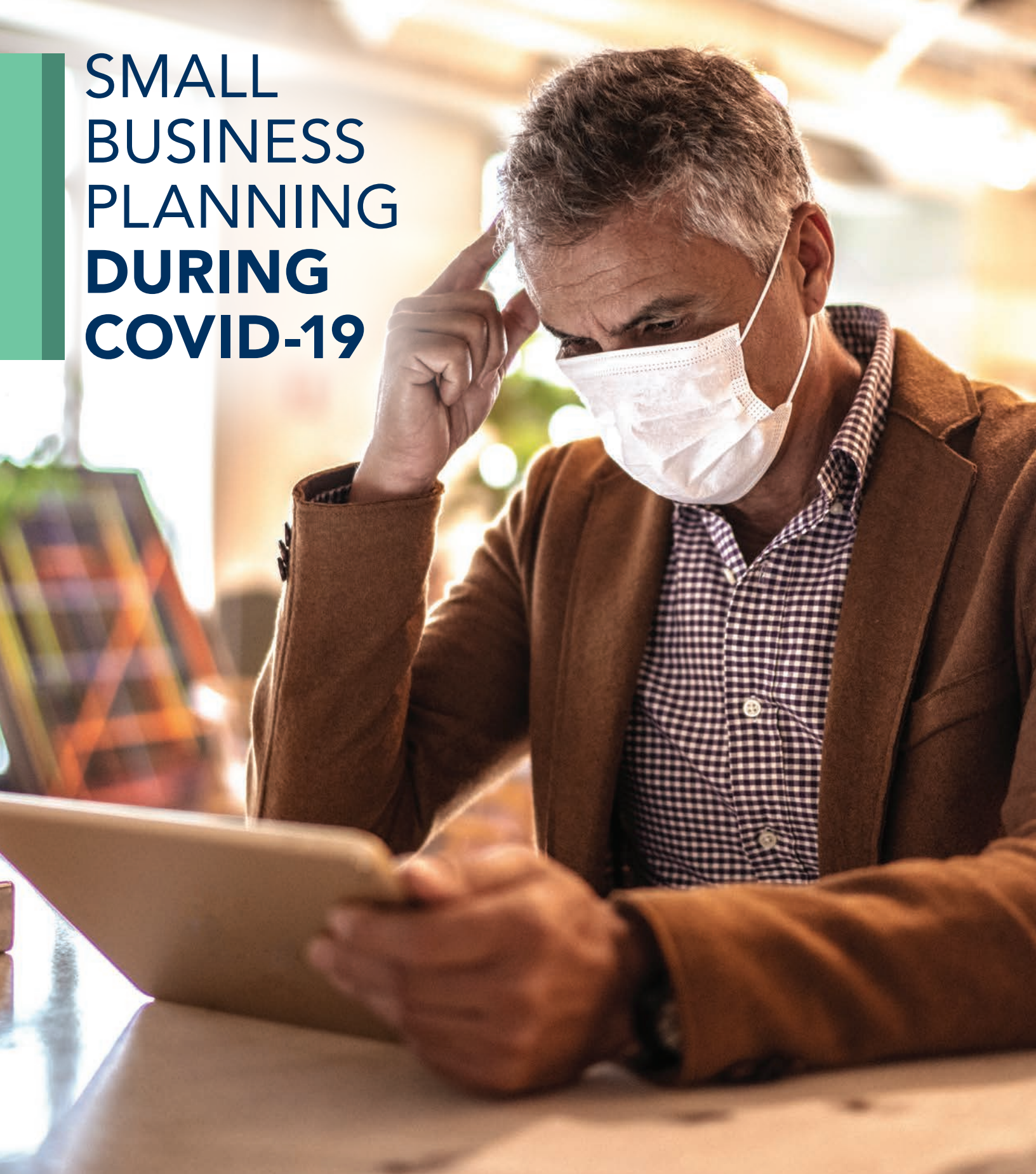




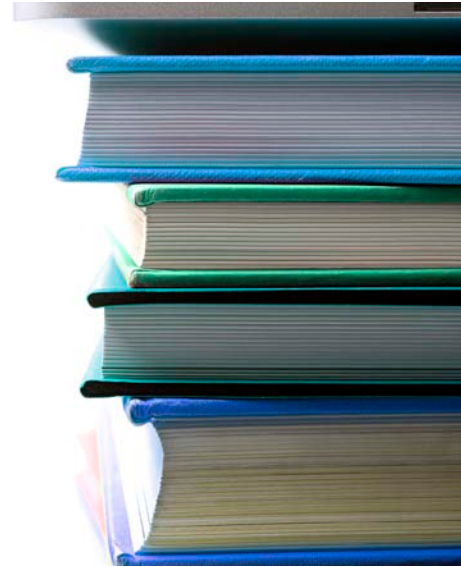
The Association of
Accountants and
Financial Professionals
in Business

SMALL BUSINESS PLANNING DURING COVID-19



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IMA's Small Business Committee (SBC) is a standing advisory committee that serves as an advocate for IMA's small business community. It monitors the overall quality, operationality, and cost effectiveness of domestic and international financial reporting, integrated reporting, tax, and nonfinancial reporting issues for small businesses. The SBC also develops education on topics that affect IMA's small business community through the creation of thought-leadership materials, such as articles, webinars, and sessions at IMA's conferences.

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Introduction

Finance professionals are critical leaders for developing and implementing a recovery plan. Because small businesses around the world may be particularly vulnerable to the COVID-19 outbreak, the IMA® (Institute of Management Accountants) Small Business Committee (SBC) has created an emergency response plan as a starting point for business continuity in a time of crisis.¹

The SBC suggests that small businesses apply a three-step assess-build-communicate (ABC) recovery planning framework:

- A: Assess the current situation, preferably with a team of experts.
- B: Build a plan by brainstorming with your team of experts (and a Plan B if you have the resources).
- C: Communicate calmly, clearly, and continuously.

Assess the Situation

First, assess the current situation to determine the starting point for planning. Since the present economic environment is unprecedented, there are many areas in which business leaders are unprepared. The time horizon of impact of the COVID-19 pandemic is unknown, but it is relatively certain that the economic effects will reach across the next six months or longer.

The best place to start is an assessment of cash flow. Small businesses must ask the following questions:

- Based on our cash flows, can we function for six months?
- If not, is it time to shut down operations (or segments of our operations)?
- Based on cash flow, is continuation of the business or segment for the next 12 months probable? Some businesses have enough cash to survive for six months, but a lagging business recovery would erode all available cash before positive cash flow is generated.

Cash flow considerations: Managing cash flow is a challenge for most small businesses in the best of times. With the COVID-19 pandemic sweeping the globe, managing cash flow is critical for survival. Understanding your cash and working capital needs is the most important and first step in any cash flow management strategy. It is vitally important that you, the small business owner, fully understand what your cash flow looks like, particularly in the short term. Consider assessing your cash flow situation for multiple time frames, such as 60 days, 90 days, and six months. Each of these time frames may require considering different scenarios.

¹ This document is not all-inclusive and is not intended as a substitute for an organization's plans.

Document expected payments: An important first step is documenting all your payments, down to the day, if possible, to get a complete picture. A checkbook or register is actually a good way to look at the whole picture. Work through what your revenues, expenses, and cash flow will look like over the time frame you are trying to manage.

Apply the 80/20 rule: Depending on your situation, you probably have less time than usual to devote to your business operations and things like accounts receivable and sales. So, take a few minutes and identify the 20% of customers that bring you 80% of your revenue, and focus your attention on collecting what you can from them. Prioritize existing and long-term relationships over newer ones; those are the customers who are most likely to understand and be willing to work with you.

Consider factoring: If your accounts receivable is significant, factoring may be another option. If you consider this alternative, make sure you understand the terms of any agreement so you can approximate these costs for your cash flow projections.

Operating costs: Reach out to vendors and ask for payment term extensions. For example, if your terms are usually net 30, see if they will accept net 90 under the circumstances. When possible, convert fixed costs to variable ones, deferring cash outflows whenever possible. Prioritize cutting administrative costs that do not generate revenue.

Employees: Sadly, this is the most painful step for most, if not all, small business owners. As personnel is often the largest expense most small businesses have, it must be addressed. Some items to consider include a reduced (three-day) workweek and salary cutbacks for senior personnel, including reduced benefits such as deferred retirement plan payments. Be strategic in reducing your payroll costs. In addition, become fully aware of available government assistance programs—federal, state, and local—for obtaining assistance to help your employees.

Build a Plan

The process of assessing cash flows—the “A” in the ABC recovery framework—allows the finance professional, along with the right experts, to build the plan. In other words, once a business has evaluated its cash position, leaders must gather all financially relevant data points to create a clear picture of reality vs. expectation. Many of the safeguards that business leaders have used for risk management are ineffective in the case of a pandemic.

Succession plans, buy-sell agreements, insurance policies, contracts with suppliers, and loan agreements must be evaluated immediately. Understanding the practical effects of contracts and renegotiating terms can pose challenges for small business owners. In particular, there can be pitfalls in negotiating commercial real estate leases that disproportionately affect small business owners. This is why it is critical to plan and understand your needs. If necessary, reach out to competent legal counsel who can quickly pinpoint key concerns with real property or commercial transactions and help you reduce your risk in negotiations.

Discuss with an attorney whether the effects of COVID-19 are included in the contracts under the definitions of force majeure and what remedies are available to the parties if force majeure applies. An attorney may advise that any pending contracts should be revised to include specific force majeure language to protect the parties from unforeseen effects of nonperformance and liability.

Some types of insurance may exempt certain claims under the force majeure clause or other language, and others may simply not be enforceable or applicable in times of public emergency. These types of potential scenarios of business disruption and simultaneous cash drain must be considered when evaluating operations and cash flow scenarios. Now is the time to contact landlords, insurance companies, loan relationship managers, vendors, and government agencies to determine the contractual terms and possibly renegotiate them. Many lending institutions are allowing extensions on loans, credit increases, and loan payment deferrals.

Furthermore, employment situations may challenge the business's resources in unforeseen ways. Some employees may be entitled to special considerations under the Family Medical Leave Act of 1993 (FMLA), workers compensation insurance, employee health plans, unemployment insurance, Occupational Safety and Health Administration (OSHA) guidelines, and more. Review legislation and coordinate with human resources experts. There may be restrictions on termination if an employee fails to show up to work due to health concerns.

Payroll tax credits: The Families First Coronavirus Response Act, enacted on March 20, 2020, provides two refundable payroll tax credits for American small businesses with fewer than 500 employees (see IR-2020-57; bit.ly/2UzzXII). This legislation provides employees 80 hours of paid sick leave related to COVID-19 illness, medical care, and quarantine. The employee may receive 100% of his or her pay during this time including health insurance coverage, and the employer may claim a refundable credit against federal payroll taxes. That is, the employer can offset these costs against payroll tax liability and claim an expedited refund for excess.

The law also provides a similar refundable payroll tax credit for family leave to address school closings, the unavailability of care providers, or ill or quarantined family members. Under the circumstances described in the law, an employee can receive two weeks of paid leave at two-thirds of his or her pay, and the employer may similarly claim a payroll tax credit. Employers with less than 50 employees are exempt from this expanded family leave. Under certain circumstances, the employee may be eligible for expanded coverage for up to 10 weeks. The law includes a 30-day nonenforcement provision for noncompliance in good faith.

Taxes: The IRS has closed all Taxpayer Assistance Centers, and it's no longer conducting in-person meetings and consultations. The federal government has extended the income tax deadline from April 15, 2020, to July 15, 2020 (see IR-2020-58; bit.ly/2QLzn2X). This extension covers the deadlines for both filing and payments. Taxpayers will not incur interest or penalties during this period.

In some jurisdictions, the federal extension automatically extends the state and local tax deadlines because their statutes and regulations are pegged directly to the federal filing date. In

other jurisdictions, a change in the law either by legislation or regulation is necessary to change the filing or payment deadlines. Please check the laws and rules in each state or municipality to ensure compliance.

If a business needs to lay off staff either temporarily or permanently, check with government initiatives (state and federal) for programs that can help staff with unemployment, medical, disability, and similar benefits. Proactive support of staff that conveys “We care enough to offer some resources for you while you/we try to get through this” is comforting even in times of layoffs. In times of economic recession, it is not uncommon for contract workers to attempt to be reclassified as employees to claim unemployment benefits. Watch for programs emerging through legislation.

Many local jurisdictions have mandated closure of schools, public programs, and service businesses, and further mandates are likely to be forthcoming. Explore work-from-home options if they are not already in place. Determine the technical improvements that are required to allow staff to work from home. Consider the budgetary savings of replacing plane/hotel trips with video conferences. Creative staffing hours may be required so fewer employees are within immediate proximity at once. If employees work from home, staggered shifts may help alleviate the technology limitations.

Supplier/vendor contracts may have clauses that affect the business’s ability to continue operations. Vendor contracts may not allow termination of the contracts and may not require delivery or performance under the contracts. Evaluate the extent to which these factors pose a threat to cash flow and operations.

To the extent possible, contact customers to verify their expectations and needs. Is it possible to continue to provide goods and services to the customer? Many businesses and consumers have unmet needs at this time. Take note of the customer requests for the brainstorming and plan-building step.

Consider a retrofit for your business to help meet the unexpected needs affecting others, such as wineries and cosmetic production changing to hand sanitizers, clothing manufacturing changing to hazmat uniforms, and so on.

As each issue is addressed, list possible remedies and potential emergency measures that are available. Brainstorm the actions and potential outcomes with the business leaders and experts. Verify with financial and legal experts that actions such as borrowing more money, altering operations, changing succession plans, or laying off employees make sense in the context of the current situation. Companies should include as part of their six-month plan their innovations and responses to emerging market needs. Important aspects to consider include the impacts of suspending revenue-producing events, customer communications, insurance, federal declarations of an emergency, liability for developing or delivering medical treatments, statutory and regulatory protections for employees (OSHA, U.S. Department of Labor or DOL), legislation that affects small business, and access to capital.

Communicate

Once planning has been developed to a reasonable amount of detail, communicate the plan, identifying each initiative, the person accountable for the initiative, and the actions and budgeted cash flow for the initiative. Specify the goals and objectives of each initiative.

For instance, some initiatives like internet marketing may continue contact with customers, while others such as discontinuing business segments will preserve cash and other resources. Since communication is a two-way stream, create media that will allow for feedback and monitoring. Have your team update your plan with information gathered from outside sources—such as the government, U.S. Small Business Administration (SBA), DOL, bank contacts, or vendors—to help manage supply line, unexpected sources of financial assistance, and so on. Document all communications.

The ABC framework is designed to move small businesses forward in a time of uncertainty. After this emergency is resolved, the leaders of many small businesses will be more aware to consider preparations for other types of business interruptions. Deliberate planning and action may prove to be the keys to building a stronger business capable of withstanding the test of time. The checklist beginning on the next page is a helpful tool for implementing your ABC recovery plan.

COVID-19 Response Checklist

The following items are designed to help you and your team develop a recovery plan based on your cash flow expectations. Generally, it is recommended to consider scenarios for at least a six-month period.

Key planning team

- CFO/finance
- Legal
- Risk management/insurance
- Treasury
- Logistics
- Head of sales or marketing
- Head of human resources

Key areas to consider

- Existing business model
- Innovation on new products, services, or delivery
- Repurposing operations

Revenue

- Cancellations and refunds
- Communications with customers
- Compliance with local or statewide shelter-in-place mandates
- Maintaining quality of goods sold
- Customer delivery options

Inventory, operations

- Preventing community transmission (services)
- Long-term storage
- Spoilage
- Supply chain, continuity, availability, and quality, including global sources
- Vendor concessions
- Contract renegotiations, suppliers, and landlords
- Extended payment terms

Employees

- Work-from-home options
- Reduced hours
- Terminations
- Furlough
- Morale and support

- Reducing workplace stigma (see Centers for Disease Control and Prevention (CDC) guidelines at bit.ly/2Ug5KZW)
- Workers compensation
- Unemployment insurance
- Consolidated Omnibus Budget Reconciliation Act (COBRA)
- Affordable Care Act compliance
- Disability
- Paid leave
- Long-term leave
- Contingency planning for key employees with long-term illness or death
- Reduced owners' salaries, bonuses
- U.S. Department of Labor communications—technical challenges and compliance

Insurance

- Business interruption claims—documentation

Liability

- Maintaining a safe workplace—regulatory, private liability
 - CDC, World Health Organization guidelines, state and local health agencies
- Customer claims—risk of transmission
- Vendor claims—risk of transmission
- Healthcare workers
- Product liability (medical supplies, development of treatments)

Lending, financing—private

- Private initiatives
- Compliance with existing lending arrangements, covenants
- Renegotiating loans, lines of credit

Lending, financing—government

- New legislation, regulations
- Small Business Administration (SBA)—The SBA administers the federal Economic Injury Disaster Loan Program (tinyurl.com/uq8kgwq), which provides small businesses with loans of up to \$2 million to cover operating expenses and provide working capital due to a declared disaster. Many individual states have declared disasters in connection with the COVID-19 emergency.
- U.S. Securities & Exchange Commission—Office of the Advocate for Small Business Capital Formation

Financial analytics/risk

- Scenario analytics
- Working capital needs

U.S. Generally Accepted Accounting Principles

- Impairment losses
- Credit losses, implementing current expected credit losses
- Disclosures, notes to the financial statements

Small business ownership

- Restructuring owners' salary/distributions and tax implications
- Key-person life insurance
- Buy-sell arrangements

Additional Resources

Small Business Administration Economic Injury Disaster Loans for COVID-19: bit.ly/33EcKti

U.S. Department of Labor (DOL) Guidance: bit.ly/3bjJlen

Occupational Safety and Health Administration, providing infection prevention information specifically for workers and employers and actively reviewing and responding to any complaints regarding workplace protection from COVID-19, as well as conducting outreach activities: bit.ly/2wwqWBQ

DOL on COVID-19 and the American Workplace, for effects on wages and hours worked under the Fair Labor Standards Act and job-protected leave under the Family and Medical Leave Act: bit.ly/2QG19Ok

Centers for Disease Control and Prevention on COVID-19: bit.ly/2WEPmUy

Society for Human Resource Management on COVID-19: bit.ly/2y3BhWI