

## Small business needs during and after the coronavirus crisis: A roadmap to recovery

From plunging revenues to shuttered storefronts, it's no secret that the COVID-19 public health crisis has driven too many small businesses to the brink of collapse. Stories and data from business owners across the country, including from our network of 70,000 small businesses, have illuminated the dire reality of what they are facing. Many small businesses are weeks or months away from closing, if they haven't already closed their doors for good. As we start to reopen our economy this month, it's critical that policymakers understand their needs and focus on enacting policies to bolster Main Street's recovery and long-term success.

More American jobs are created by entrepreneurs than any other way—small businesses employ half the private-sector workforce and create two-thirds of all net new jobs. That's 60 million individuals who depend on small businesses for their livelihood, which is vitally important in underserved communities and communities of color. Yet, government policies too frequently ignore—and sometimes hinder—small businesses from reaching their full potential. Indeed, Small Business Majority's [state polling](#) found a mere 12% of small business owners feel their government officials understand their needs.<sup>1</sup>

While government officials have historically favored legislation that benefits big business over small and new businesses, the pandemic's impact on the small business community has been front and center during the crisis. Importantly, this emergency has exposed fundamental inequities in our economy that favor large, politically-connected corporations and white-owned businesses over the diverse Main Street businesses and solo enterprises that drive our economy. This includes vast differences in the ability to access responsible capital, obtain health coverage and other critical benefits for entrepreneurs and their employees, and compete in an economic system that has favored anti-competitive consolidation over economic democracy.

Congress has taken some steps to address these needs by funding emergency small business loan programs, but it is not enough to ensure businesses recover, nor are they moving quickly enough to meet deadlines in key programs. These existing loan programs are slow, inefficient and convoluted and have left millions of small businesses behind, particularly the smallest businesses and those owned by people of color. And for those who have received a loan, the guidelines are so unclear that some business owners are afraid to use the money in case a misstep forfeits their chances of loan forgiveness.

It's clear that we need bold action to ensure that small businesses can recover and be better positioned to withstand the next crisis. **This is why we're calling on Congress and state legislatures to put small business needs at the front and center of all economic policymaking.**

To better educate policymakers and other stakeholders about the importance of promoting a stronger infrastructure for our small business economy, this document outlines (1) the obstacles small businesses face today, (2) their views on policy solutions and (3) short and long-term recommendations to promote a stronger Main Street for the future.

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<sup>1</sup> Small Business Majority, "Small business owners say government doesn't understand their concerns, need help with healthcare costs and other challenges", August 2019, <https://smallbusinessmajority.org/our-research/entrepreneurship-freelance-economy/small-business-owners-say-government-doesn-t-understand-their-concerns-need-help-healthcare-costs-and-other-challenges>

## The state of small businesses during COVID-19

The spread of COVID-19 around the country has already had a devastating impact on small businesses. In fact, at least 100,000 American small businesses, have already closed their doors permanently.<sup>2</sup> Meanwhile, furlough rates increased 138% from March to April. Scientific opinion polling conducted on behalf of Small Business Majority in April revealed the dismal state of small businesses and what we stand to lose if Congress doesn't act to provide additional robust assistance to small businesses.

An astounding 9 in 10 reported the coronavirus had already impacted their business in the first few weeks of the crisis, with 43% saying it had a severe negative impact. Similarly, 41% reported their revenues had declined by more than 50% since the COVID-19 crisis had begun. And a whopping 1 in 3 small businesses had already closed in April, with another 14% contemplating closure.

Additionally, small businesses reported widespread layoffs and furloughs: 4 in 10 had permanently laid off their employees, 56% had furloughed employees and most (72%) had reduced hours, salary or both for employees as a result of the crisis. One in three had permanently laid off, furloughed or reduced the hours/salary of their entire workforce.

Meanwhile, the emergency loan programs funded by Congress have not done enough to stem these losses. While the retail, hospitality, and food service industries have represented 65% of job losses, these industries received only 9% of approved Paycheck Protection Program (PPP) loans during the first round of lending before the funds ran dry. And black and Latino-owned businesses have been completely left behind by the loan program. A recent survey found a mere 12% that applied for PPP received the amount they asked for, and half anticipate being forced to close permanently in the next six months.<sup>3</sup>

Additionally, data on the first round of funding from the U.S. Small Business Administration (SBA) revealed that bigger businesses were reaping the benefits of PPP, with 70% of the money allocated to loans of more than \$350,000. This size loan is not going to the smallest businesses as most small firms request smaller-dollar loans when seeking capital—in 2019, most small businesses who sought financing (57%) applied for loans under \$100,000.<sup>4</sup>

While current data on the second round of funding indicate that more smaller-dollar loans are being approved, small businesses that lack banking relationships are still struggling to access financing. This is particularly concerning as women and minority-owned businesses are historically left behind by traditional financing institutions. Additionally, because the loans are tied closely to maintaining payroll and don't adequately address the fact that small businesses have other expensive overhead costs like rent and utilities, the loans don't do enough to ensure small businesses have the means to survive the crisis.

## Small business views on policy solutions

As the data above makes clear, small businesses need more from policymakers just to survive the immediate crisis. Small Business Majority's recent polling found 53% of small businesses say the CARES Act, the initial \$2 trillion stimulus package passed by Congress in March, was a good first step to address the challenges they're facing, but they believe much more small business assistance is needed.

**Most small businesses (92%) say what they need from the federal government to help them survive the crisis is direct grant assistance.** Two-thirds (66%) strongly support direct cash grants to help ensure small businesses can recover. More than 6,500 business owners in our network have signed a letter advocating direct grants approach.

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<sup>2</sup> The Washington Post, "Small business used to define America's economy. The pandemic could change that forever." May 2020, <https://www.washingtonpost.com/business/2020/05/12/small-business-used-define-americas-economy-pandemic-could-end-that-forever/>

<sup>3</sup> UnidosUS, "First COVID-19 Survey of Black and Latino Small-Business Owners Reveals Dire Economic Future, Inaccessible and Insufficient Government Relief Funds," May 2020, <https://www.unidosus.org/about-us/media/press/releases/051820-UnidosUS-Press-Release-COVID-19-Survey-Black-and-Latino-Small-Business>

<sup>4</sup> The Federal Reserve Banks of the United States, "Report on Employer Firms 2019: Small Business Credit Survey," April 2019, <https://www.fedsmallbusiness.org/medialibrary/fedsmallbusiness/files/2019/sbcs-employer-firms-report.pdf>

Small businesses identified a number of additional solutions that would help the small business community obtain the relief it needs to make it through the crisis, including the following:

- Financial assistance for rent, mortgage and utility payments, not tied to maintaining payroll (86% support).
- Forbearance on all small business debt, not just current SBA loans as provided by the CARES Act (86% support).
- Increasing funding for Community Development Financial Institutions (CDFIs), which provide loans to the most underserved small businesses (84% support).
- A moratorium on increased unemployment insurance taxes for two years (83% support).

As government officials consider additional proposals to spur economic recovery, it's critical that they consider small businesses' views on these issues and give entrepreneurs a prominent seat at the table.

### **Policy recommendations to ensure Main Street recovers and thrives**

Our nation's policymakers must focus closely on Main Street when crafting short-and long-term solutions to the COVID-19 crisis. This includes addressing significant problems with the current emergency small business loan programs and enacting policies to better position the small businesses that are the backbone of our economy for success.

#### **Provide grant assistance to ensure small businesses stay afloat**

Small businesses that are unable to maintain payroll or have operational costs that rival or exceed the cost of payroll, desperately need direct grant assistance. We recommend allocating \$600 billion in funding for direct grants to ensure that a pool of money is available for small businesses while avoiding the many problems with PPP. These grants can be administered through existing federal emergency programs or the IRS using a simple application.

##### *Immediate Policy Needs:*

- Allocate grants to cover small businesses with up to 100 employees, including the self-employed.
- Pay businesses to cover four months of actual payroll up to \$20,000 per employee (\$60,000 annual salary). This calculation would be based on one-third of their annual 2019 payroll, and for those businesses that did not exist in 2019, would be based on 133% of their January-March 2020 payroll (four-months equivalent). All amounts granted would be reduced by any forgivable loans received under the current PPP program.
- Pay businesses an additional amount of up to 10% of annual gross receipts (30% of four-months gross receipts) to cover any legitimate operational expenses (including additional payroll) over a four-month period at the small business's discretion. This calculation would be based upon 2019 gross receipts, and for businesses that did not exist in 2019, the maximum amount would be 40% of gross receipts for January-March 2020 (equivalent to 30% over four months). All amounts granted would be reduced by any grants received under the current EIDL program.

Congress should pass the numerous legislative proposals on the table that would provide targeted grant/tax relief to very small businesses. There are also proposals for relief that provide flexible grants to support payroll and non-payroll expenses.

## **Reform the Payroll Protection Program (PPP)**

### *Immediate Policy Needs:*

- Extend the deadline to apply for PPP through the end of the year.
- Forgive all loans under \$150,000 so small businesses do not have to navigate a convoluted loan forgiveness process in the midst of keeping their business afloat.
- Eliminate the current requirement that at least 60% of the loan funds be used for payroll costs in order to be forgiven, thus increasing the amount small businesses can use for other costs to keep their business afloat. Most small businesses are not able to meet the 60% threshold, which means they will incur debt if the PPP rules are not amended.
- Guarantee that existing borrowers also have five years to pay back any unforgivable portions of the loan instead of the current two years.
- Allow borrowers to apply for a second round of PPP funding.
- Ensure PPP funding is open for justice-impacted business owners.
- Provide lenders a minimum processing fee of \$2,500 per loan to ensure lenders do not lose money by processing small-dollar loans or cherry pick larger loans.
- Set aside \$100 billion in PPP funds specifically for CDFIs, Minority Depository Institutions (MDIs), rural loan institutions and other mission-driven lenders.
- Reverse the IRS ruling that prohibits payroll and rent tax deductions for expenses incurred with the PPP.
- Require the SBA to collect demographic data to determine whether funds were equitably distributed to minority-owned business.
- Mandate that lenders are forbidden from using credit to deny potential PPP borrowers.

## **Reform the Economic Injury Disaster Loan (EIDL) Program**

### *Immediate Policy Needs:*

- Forgive all loans under \$150,000 so small businesses can benefit from the flexibility of the EIDL program, which the PPP program lacks.
- Allocate more funding for the EIDL advance so that each business receives the full \$10,000 grant, regardless of the number of employees.

## **Provide robust funding for business support services**

Small business owners are desperate for education and guidance right now. We urge more short and long-term funding for business assistance centers that provide resources to business owners. This is particularly needed as many small business owners are taking on more debt or seeking financing for the first time. Many businesses are also being forced to rethink their entire business model and adapt to a rapidly changing economic environment.

### *Immediate Policy Needs:*

- Provide more immediate funding and resources for business assistance providers that provide vital education to business owners and aspiring entrepreneurs such as Small Business Development Centers, Women's Business Centers and the Minority Business Development Agency.

- Significantly expand state funding (including federal funding to states) for small business technical assistance programs to ensure small businesses receive access to free and low-cost counseling, mentoring and networking during and after the coronavirus pandemic.

*Long-Term Policy Needs:*

- Promote SBA and other programs that foster peer-to-peer mentoring and encourage expanded procurement opportunities for very small businesses, particularly those owned and run by women and entrepreneurs of color.
- Increase liquidity for microloan intermediaries that provide technical assistance support to underserved businesses.

**Expand access to responsible credit and capital**

We urge federal and state officials to identify creative ways to enable responsible access to credit to ensure small businesses are better positioned to access financing when they need it most. While small businesses may be wary to take on new debt in this economic climate, we must ensure they are able to access the right kind of capital in an efficient manner, and that women, people of color, immigrants and rural entrepreneurs have equal access to financing.

*Immediate Policy Needs:*

- Expand the CDFI Fund to \$1 billion to ensure an infusion of loan dollars that CDFIs can start disbursing into their communities now.
- Establish special purpose vehicles or other facilities within the Federal Reserve to allow CDFIs, MDIs and other mission-driven lenders to sell loans on the secondary market, enabling increased liquidity.
- Require the SBA to increase awareness about the Small Business Debt Relief Program and extend it for another six months.
- Extend Truth in Lending Act disclosure requirements to small business credit products so that small businesses struggling with cash flow are not taken advantage of during this pandemic. Such legislation would ensure more transparency and fairness in small business lending products, as we've recommended in the Small Business Borrowers' Bill of Rights.<sup>5</sup>
- Prohibit "confession of judgment" clauses in small business lending agreements whereby borrowers agree in advance to waive their right to contest any dispute with a lender, often costing them their entire savings.

*Long-Term Policy Needs:*

- Reauthorize and fund a program similar to the State Small Business Credit Initiative (SSBCI) at \$10 billion. Between 2010 and 2017 SSBCI facilitated the delivery of \$9.5 billion in flexible, affordable debt and equity capital via the states to small businesses across the country.
- Establish and financially backstop new types of loan products that provide initial repayment moratoria, a subsequent period of no- or low-interest and responsible interest levels after that.
- Make permanent the New Markets Tax Credit (NMTC), which has helped to attract more than \$60 billion in private sector funding to community development financing intermediaries that provide loans to businesses in economically-distressed communities across the United States.
- Increase funding and access to SBA's 7(a), Express Loan, Community Advantage, and Microloan programs, including additional technical assistance dollars and dedicated outreach campaigns.

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<sup>5</sup> [www.borrowersbillofrights.org](http://www.borrowersbillofrights.org)

- Promote innovative, responsible equity products such as crowdfunding and other patient capital instruments.

### **Additional financial measures and resources**

#### *Immediate Policy Needs:*

- If the direct grant programs or the improvements to the PPP recommended above are not enacted, establish a program that would pay employers to maintain healthcare for employees they had to lay off or furlough. And, whether or not such new policies are enacted, allow furloughed employees to stay on their business-sponsored health plans during the COVID-19 emergency.
- Ensure the small business tax provisions of the CARES Act can be taken in conjunction with any grant/loan assistance like the PPP.
- Adjust repayment due dates on property taxes and commercial rent to give small businesses the flexibility they need to stay afloat.
- Pass legislation that would ensure business insurance companies cover COVID-19 revenue losses.
- Provide forbearance on all small business loans and credit card payments for at least six months. The CARES Act provided relief for SBA loans, but we must ensure that small businesses with other forms of debt are supported, as SBA lending is only a fraction of the market.
- Ensure all SBA loans and/or grants awarded to small businesses are efficient and immediate so that small businesses are not receiving loans months after an application is submitted.
- Guarantee that all small business financing products are unrestricted so small businesses are able to use emergency loans to provide employee benefits, pay wages, pay taxes, make telework arrangements, pay rent, refinance existing debt, and more.
- Enact measures that would immediately provide funding for small businesses to acquire personal protective equipment, plexiglass and other supplies that help prevent the spread of viruses. This will instill customer confidence, enabling businesses to reopen more quickly and sustainably.

#### *Long-Term Policy Needs:*

- Pass a moratorium on increasing future unemployment insurance rates so that small businesses do not have to pay higher premiums in subsequent years as a result of COVID-19 layoffs.
- Create a student debt relief program for entrepreneurs. This would benefit many aspiring entrepreneurs, especially millennials, who wish to start businesses that could create new jobs and inject money into our nation's economy.
- Support federal and state efforts to ensure that entrepreneurs can benefit from an expanded Earned Income Tax Credit (EITC) program. Expansion of the EITC can have a powerful effect on economic security for entrepreneurs and independent workers.

### **Strengthen and expand the Affordable Care Act**

Small businesses and their employees need access to affordable, quality healthcare, now more than ever. Unfortunately, the Administration's efforts to rollback key ACA provisions have weakened access to affordable care. Much more needs to be done to expand coverage, strengthen the marketplace and rein in costs so that if COVID-19 continues to threaten the health of our communities, small businesses and workers won't face increasing premiums and lackluster coverage.

#### *Immediate Policy Needs:*

- Guarantee continued health protections for individuals with pre-existing conditions.

- Block the extension of short-term, limited duration insurance plans. These plans are intended to fill gaps in an individual's coverage in the event of job loss or other life changes, but are not required to cover essential health benefits and can come with hefty deductibles.
- Oppose efforts to implement association health plans (AHPs). For example, even though COVID-19 testing has been designated as an essential health benefit, treatment costs and other tests may not be covered under these plans as they're not required to cover all essential health benefits. AHPs also encourage younger, healthier groups to purchase inadequate coverage, thus increasing costs for the rest of the small group market.
- Protect consumers from surprise billing by limiting patient cost-sharing to the amount they would owe to an in-network provider, setting a payment standard regarding what insurers owe providers in these situations and prohibiting providers from balance billing patients.

*Long-Term Policy Needs:*

- Close the coverage gap by continuing to expand Medicaid in states that haven't done so, which is vitally important for low-income entrepreneurs and small business workers who can't afford coverage. Roughly 616,000 small business employees could gain coverage if all remaining states expanded Medicaid.
- Reinstate the ACA's risk corridor program to help protect against carriers overpricing or underpricing their products to keep premiums low and insurance markets sustainable. This is particularly important to prevent insurers, who are likely to see huge profits in 2020, from overpricing products in 2021 because of uncertainty related to COVID-19.
- Expand the current system of marketplace subsidies that has helped make healthcare more affordable for many small businesses, their employees and self-employed Americans.
- Pass legislation to rein in the rapidly rising costs of prescription drugs, as these costs are hurting small business owners' bottom lines.

**Paid family and medical leave and additional benefits**

Nearly half of all U.S. workers are employed by small businesses, which means small businesses are particularly impacted by loss of employees due to illness. The following actions can help small businesses retain their employees while decreasing the spread of COVID-19.

*Immediate Policy Needs:*

- Ensure small businesses that offer paid family medical and sick leave during COVID-19 receive cash reimbursement, instead of having to wait for a quarterly tax reduction or an annual tax credit as provided in the Families First Coronavirus Response Act (FFCRA.)
- Enact a temporary sick leave policy to help cover employees who need to take sick time, but this must be coupled with immediate grant funding to help small employers cover the costs of leave.

*Long-Term Policy Needs:*

- Pass the FAMILY Act to establish a national program that would provide partial wage replacement for small business employees and the self-employed to deal with health conditions for themselves and family members or to take parental leave. This program would be funded by modest employee and employer payroll contributions.
- In lieu of a federal paid leave program, pass more state laws to establish paid family and medical leave insurance programs.
- Implement policies at the national and state levels that would help more working parents afford child care, understanding this is essential to retaining a skilled workforce. With schools closed

around the country due to COVID-19, lack of access to affordable childcare has been a challenge for both entrepreneurs and small business employees as they struggle to balance work and home needs at the same time.

- Support state and federal efforts to establish publicly-administered retirement savings programs ("Secure Choice") programs, as has been enacted in several states, to help more small businesses, their employees and the self-employed establish retirement plans.

### **Fair and Open Markets**

COVID-19 has led to so much uncertainty producing and delivering products and services, encouraging even more inequitable business practices than already existed before the crisis. Federal and state officials should leverage their power to ensure our markets are fair and open and ensure small businesses are able to operate on a level playing field. Small businesses cannot thrive when larger entities are competing unfairly.

*Immediate and Long-Term Policy Needs:*

- Enforce existing laws preventing price-gouging.
- Enforce federal and state antitrust laws.

### **Conclusion**

As our economy starts to reopen, small businesses need additional government support to ensure they can run their businesses and continue to be the backbone of America's economy. By implementing these recommended policies, we can build a small business economy that doesn't just survive this crisis, but one that is even stronger and better protected from the next disaster.