

## Policy Briefing

# Gaps in Emergency Support Programs

CFIB has identified a list of gaps, recommendations, and questions with respect to the full suite of COVID-19 emergency support programs for small businesses:

### *All programs:*

- New businesses are not able to access any of the government emergency programs as they usually require that the business was operating before March 2020 to qualify. CEWS does allow those who started their business in January or February of 2020 to apply, but there is no support for those who started after that date. CEBA requires you to have had payroll in 2019 (payroll stream) or contracts in place prior to March 1st (non-deferrable expense stream).
- Businesses with no CRA Business Number (BN) prior to March 1st (CEBA) or March 15<sup>th</sup> (CEWS) are not eligible to use the programs. This would include both new businesses (as described above) but also businesses that may not need a BN to operate such as music schools or those who may have postponed getting a BN number under the advice of CRA (which may include businesses started in late 2019). It appears that CERS will also require a BN as of September 27<sup>th</sup>. This will allow some 2020 businesses to apply, but will still eliminate those who have operated to date without a BN.

### *Canada Emergency Business Account (CEBA):*

- Challenge for new businesses and those without Business Numbers, as noted above.
- The requirement to have signed contracts/agreements dated between January 1<sup>st</sup> and March 1<sup>st</sup> to make a business' non-deferrable expenses eligible for the year is making it very difficult for many small businesses to get the CEBA loan. It also shows a real lack of understanding on how many small businesses operate as not everything is in the form of a contractual agreement. CFIB has suggested that government allow a second pathway to provide evidence for these expenses that have been paid on a consistent basis pre and post COVID-19. This is particularly important for payments made to independent contractors. The CEBA rules suggest that a business can defer or cancel these expenses as a contract does not exist. While this may be technically true, this may harm or stop the firm's ongoing operations - counter to the entire mandate of CEBA.
- Micro-sized and new firms may have less than \$40K in non-deferrable expenses due to the complex requirements on what is included or not included in the application. Many of them require a CEBA loan as well, potentially in proportion to their business size.
- Compensation to the business owner (such as dividends) is not permitted to be included in the \$40K expense pathway, but T4 salary income is permitted. This is deeply unfair and fails to recognize that business owners need to earn a living themselves. While some may be able to

access the new, temporary CRB benefits under Employment Insurance, the disqualification from a CEBA loan may cause their business to fail in the meantime.

- The requirement for a business to have filed a CRA 2018/2019 income tax return reflecting a year-end-date of December 31<sup>st</sup> 2018/2019 is excluding many businesses who follow an alternative calendar year and who have successfully filed 2018/2019 income tax returns.
- Ensuring that EDC continues to improve its call centre capacity and returns quickly to taking direct calls (rather than call-backs) is important.
- Businesses using third-party payroll providers are not able to apply for the CEBA. This rule was changed in the 5<sup>th</sup> period of the CEWS and should be recognized across all the COVID relief programs.
- If the emergency phase of the pandemic lasts beyond the end of 2020, CFIB urges government to consider expanding CEBA to \$80,000 with a 50% forgivable portion.

#### ***Canada Emergency Wage Support (CEWS):***

- Challenge for new businesses and those without Business Numbers, as noted above.
- Those who pay themselves in dividends are excluded from the wage subsidy. We would suggest allowing a portion of the dividend revenue to be included or allow them to convert an equivalent amount to a salary to be able to include it in the calculation.
- Seasonal businesses are very worried that the amount of revenue loss will decline as they enter their slow season but the need for assistance remains high as they were not able to regain much, if any, of their usual revenues during their high season - this is especially true for some tourism businesses. This issue will also apply to the rent subsidy which will also be based on their revenue loss.
- Lack of Lockdown Support as exists with CERS. CFIB recommends government add a 25% top-up for those firms subject to new or ongoing public health measures to ensure they can retain their staff during the second wave.

#### ***Canada Emergency Rent Support (CERS):***

- Challenge for new businesses and those without Business Numbers, as noted above.
- No retroactive pathway has been established for businesses that qualified for CECRA from April through September but did not receive the subsidy due to the lack of their landlord's participation. Many small firms in this category are facing tens of thousands in deferred or unpaid rent bills and ongoing revenues do not allow any pathway for businesses to cover this debt. CFIB recommends governments use CERS or another pathway to get the government portion of the CECRA promise (50% rent support) to the small firms that qualified with a 70% loss in revenue.
- CERS legislation currently requires a business to pay their rent for the month before applying for the subsidy. Many small firms have negotiated ongoing rent deferrals or are paying only a portion of their monthly rent. This may render the program unusable for many as they do not

have the cash flow to pay their rent in full. CFIB is pleased to report that government has expressed an openness to amend the legislation to allow a firm to receive the subsidy in advance with a commitment to use that money to pay their rent bill within 60 days.

- It appears that the CRA will require a business owner to enter their revenue loss calculations for CERS and CEWS separately. We recommend that this be harmonized as quickly as possible.
- CERS subsidies will be delivered on the same four week period as CEWS subsidies. While harmonizing the payment schedule has some advantages, it would be far better to ensure CERS is paid on a monthly basis as this is the way that rent is charged and understood by tenants.
- Will businesses with proportional business use and personal use (eg. home-based businesses) be eligible for rent or mortgage interest support? One way, this could work is to align it with the way that CRA currently tracks business expenses in personal income tax.
- We know from CECRA that there a number of businesses that have only a verbal rent agreement/hand-written agreement. What kind of guidance will be provided to help prove their eligibility for the CERS? CMHC did occasionally allow some businesses to create a new agreement and back date it to the beginning of the program. This should also be allowed under CERS and if required, can ask the tenant to show that they have been consistently paying an agreed upon amount for some time.

#### ***Regional Relief and Recovery Fund (RRRF):***

- The RRRF was supposed to be for those businesses not able to access CEBA or other programs. Our experience with RRRF varies from RDA to RDA. Overall, our members told us the application was time-consuming, did not include sole-proprietors, and it took a very long time before they got answers on their loan requests. Some eventually got what they requested, some were only provided a fraction of what they had asked for, others got nothing at all.
- Businesses are now enquiring about whether those with a CEBA-like RRRF loan will also be entitled to an additional \$20K like the CEBA+ loan which will soon be provided to those who got CEBA. We have not yet been able to get a clear answer on this.
- It does seem like the CBDCs did a better job of taking applications and getting the money out quickly to small businesses. However, some were not able to help sole proprietors and CBDCs are not always present in urban communities. Overall CBDC's were more effective than the RDAs, but they were not able to help as many businesses as they only received a small portion of the RRRF funding
- It would be interesting to know some stats on how many businesses were provide funding that had a forgivable portion, as well as those that just got loans, and the sizes of those businesses.

#### ***Other programs:***

- The Business Credit Availability Program (BCAP) has not been working well since its creation. Problems include lengthy application process, prolonged delays in getting a response, and anecdotally, it seems like only a limited number of small businesses have been successful in accessing these loans.

- Reforms were promised by government to allow more small and medium-sized firms to use this program, but CFIB is unaware of any progress to date and has had no contact with BDC.

***About CFIB***

The Canadian Federation of Independent Business (CFIB) is Canada's largest association of small and medium-sized businesses with 110,000 members across every industry and region. CFIB is dedicated to increasing business owners' chances of success by driving policy change at all levels of government, providing expert advice and tools, and negotiating exclusive savings. Learn more at [cfib.ca](http://cfib.ca).