

Government Assistance Programs, Subsidies, and Financial Considerations for Canadian SMEs during the Great Lockdown

Economic Climate

Due to the Coronavirus pandemic, the world faces the worst recession since the Great Depression. For Canada, it has resulted in the worst economic slowdown in the nation's history. The monthly GDP of Canada dropped by 7.2% in March 2020 M-o-M and further contracted by 11.5% in April. Moreover, the Canadian dollar with respect to the US dollar dropped significantly in March but recovered as of July 1, 2020, to CAD/USD \$0.74. The North American equity markets have experienced the greatest volatility ever, after first undergoing a significant downturn in March followed by an extreme period of recovery in the second quarter. Global unemployment has steadily increased, and at the end of the second quarter was almost 6.9% in Canada after 31,200 jobs were lost in July 2020.

However, not all sectors of the economy have been similarly impacted by the pandemic. In Canada, the pandemic has adversely influenced Real Estate, Aerospace, Meat Processing, Automobile, Construction, Wholesale Trade, Brick and Mortar Retail, Insurance, Accommodation, and Transportation industries. On the other hand, Healthcare, Technology, Online Retail, and Grocery Industries generally have benefited.

The Canadian Government has been pro-actively putting measures in place to soften the blow on hard-hit business in an effort to keep the economy rolling. The Government has already deferred corporate income tax payments until August 21, 2020, deferred Sales Tax Remittance, Customs Duty Payments, GST/HST payments until the end of June, and removed tariffs on medical goods including to reduce the cost of import for Canadians. The Bank of Canada has lowered interest rates, established several large-scale asset and bond purchase programs, enhanced term-repo operations, and established a standing term liquidity facility for financial institutions to manage the economic impact.

Government Assistance Programs

The pandemic has been especially challenging for small-and-medium-sized enterprises that are less agile to the changing circumstances on working capital requirements and financial constraints. Fortunately, several government programs provide funds to help deal with working capital shortages and potential financial shortfalls.

Innovation Assistance Program (IAP) offers \$250 million in funding for early-stage companies pursuing technology-driven innovation.

Futurpreneur Canada offers payment relief for up to 12 months for young entrepreneurs

Regional Relief and Recovery Fund is targeted towards companies that operate in hard-hit industries that are crucial for the regional economy but are unable to access current relief measures.

Business Credit Availability Program is available to businesses with less than \$50 Million in revenue that have been impacted by the pandemic. The program is offered by the EDC (Export Development Canada) and the BDC (Business Development Canada) through partnerships with financial institutions.

Canada Emergency Business Account is a collaboration with EDS to enable small companies to borrow as much as \$40,000 per company.

Large Employer Emergency Financing Facility is a program that provides bridge financing for companies with Revenues of \$3Million or more, which cannot be serviced through other conventional financing activities. The amount allocated depends upon the company's cash flow needs for the next 12 months.

Government Subsidies

Government subsidies can help companies absorb the impact of cash flow shortages. Eligibility for assistance depends upon the impact on the business, the size, and the industry. It also depends on the care in terms of financial reporting of key metrics such as revenue and salary obligations. Key government programs directed at providing wage and rent subsidies for businesses include the following:

Canada Emergency Wage Subsidy facilitates the rehiring of workers that have been laid off due to the Covid-19 epidemic. The subsidy provides as much as \$847 per employee per week. Eligible companies should have at least a 15% reduction in revenue for March or 30% reduction in April or May compared to corresponding revenue in 2019 or average revenue for January and February.

Work-Sharing Program helps companies reduce layoffs. Employees that agree to reduce their normal working hours are provided employment insurance benefits. The maximum duration for the program is 76 weeks with no cooling off period. The company should have at least 2 employees who have been in business for at least a year.

Canada Emergency Commercial Rent Assistance helps small businesses with rent relief. To qualify, the small business tenant must generate no more than \$20 Million in revenue and must have experienced a reduction in revenue of at least 70% and pay no more than \$50,000 monthly for rent.

Financial Considerations

As specifically related to accounting and financial considerations, these programs must comply with specific financial rules and criteria to receive government assistance. Many companies are

experiencing a decrease in the demand for their products and are starting to consider heavy discounting of revenues and elimination of product lines. Specifically, in terms of accounting and financial reporting, the discounting of products and elimination of product lines may also trigger the need to ensure that impairment tests of applicable assets including inventory, financial assets, investments, capital assets, and goodwill are performed. Further, since financial statements are created on the Going Concern basis, financial assessments must evaluate the extent to which the enterprise will continue into the future for at least but not limited to 12 months. Finally, in light of ongoing uncertainty, financial reporting may involve the need to consider disclosure of subsequent events that take into consideration significant changes/development that occur between the financial statement end date and their publication.

Authors:

Linda Thorne, PhD, FCPA FCA, Professor of Accounting, Schulich School of Business - York University, Toronto
Abhishek Manohar Chellani, MSc., MBA student, Schulich School of Business - York University, Toronto