

Covid-19 Small Business Survey (15)

PPP, ERTC, the Economy, the Vaccine, and Minimum Wage

NFIB Research Center

January 28-31, 2021

The NFIB Research Center has published a series of Covid-19 related surveys assessing the impact of the health crisis on small business operations, economic conditions, and utilization of the targeted small business loan and tax credit programs. This publication marks NFIB's 15th Small Business Covid-19 survey. The first of the series was published in early March with subsequent publications approximately every 2-4 weeks.

The Consolidated Appropriations Act of 2021 (CAA), which was signed into law on December 27, 2020, reopened and modified the targeted federal programs that were established to help the small business sector during the health crisis. The main programs of focus in the CAA are the Paycheck Protection Program (PPP) and the Employee Retention Tax Credit (ERTC).

One of the many modifications to the PPP program was the much-anticipated simplified PPP loan forgiveness application form. The new 3508S form allows borrowers with loans of \$150,000 or less to use a simplified forgiveness application that does not require the submission of additional documentation. However, loans between \$50,000 to \$150,000 must still calculate and account for any reduction in loan forgiveness, if applicable. Almost two-thirds (63%) of 2020 PPP loan borrowers have applied for loan forgiveness. Another 20% of borrowers are not yet ready to apply for forgiveness and 18% are ready but their lenders are not yet accepting applications. Sixty-two percent of those who have applied for PPP loan forgiveness have received final confirmation of their approved forgiveness amount from the SBA. These numbers will likely increase dramatically as borrowers and lenders were

waiting to use the newest simplified forgiveness loan application.

The CAA also reopened the PPP, allowing small business owners an opportunity for a first-draw loan and a second-draw PPP loan for a more restricted population. Of those small business owners who did not receive a first-draw PPP loan in 2020, about 30% have either applied for a first-draw PPP loan in 2021, are planning to apply or are considering applying. The remaining 70% are not planning to apply for a first-draw PPP. Of those small business owners who received a first-draw PPP loan in 2020, 30% have already applied for a second-draw PPP loan and 11% are planning to apply for one. Another 12% are considering whether to apply for a second-draw PPP loan or not. These numbers generally align with previous surveys that found about half of small business owners anticipated needing additional financial support over the next 12 months.

Forty percent of those who have applied for a second-draw PPP loan have been approved and 4% denied. Over half (56%) have not yet heard from their lender. Most of those who applied used the same lender as with their first PPP loan.

The 25% reduction in gross receipts eligibility rule was the main factor for about three-fourths of those first loan PPP borrowers in not applying for a second-draw PPP loan. Another 9% were eligible but didn't want to take a second loan.

The Employee Retention Tax Credit was originally established in the CARES Act to provide financial assistance to employer businesses through the reduction of their payroll taxes. The program as originally designed was restricted to those employers who did not take a PPP loan and had experienced a 50% or more decline in gross receipts. The CAA broadened eligibility and enhanced the benefits of the ERTC, allowing more employers to take advantage of the tax credit. The terms of the ERTC now allow eligible employers who have experienced at least a 20% reduction of gross receipts (compared to 50% previously) from the quarter compared to the corresponding quarter in 2019 and does not exclude those who have taken a PPP

loan. Eligible employers can receive a tax credit up to \$14,000 per employee for 2021. However, still very few small employers know that the ERTC exists, not surprising in that few were eligible in 2020. Only 4% of small business owners are very familiar with the program and another 32% somewhat familiar. About 8% utilized the ERTC in 2020. One-in-ten small employers plan to take advantage of the tax credit Q1 and Q2 of 2021. Nearly half (47%) of small employers report that they might take advantage of the tax credit, presumably after they learn more about the program. The tax credit is a bit complicated to navigate, especially for those employers who are also participating in the PPP program. The vast majority of small employers use a CPA, tax professional, or bookkeeper for which they can rely on to help navigate the credit. The main obstacle appears to be that small employers are not fully aware of the program's immense benefit.

The health crisis severely impacted almost all small businesses at the onset, but the economic recovery has been less uniform since then. Sales levels are 50% or less than they were pre-crisis for 15% small businesses with another 24% at sales levels of 51%-75% of pre-crisis. Forty percent are back or nearly back to where they were with sales between 76%-100% of pre-crisis levels with another 20% exceeding pre-crisis sales levels. Economic conditions appear to be improving marginally from two months ago.

Fifteen percent of small business owners report that they will have to close their doors if current economic conditions do not improve over the next six months, down from 25% two months ago. Another 17% of owners anticipate they will be able to operate no longer than 7-12 months under current economic conditions. Just over two-thirds (68%) are better situated and do not anticipate any near-term problems.

Consistently throughout the NFIB Covid-19 surveys, most small business owners do not expect business conditions to improve to normal levels until later in 2021 at the earliest. Just 5% of owners report that conditions are back to normal now. About one-third (34%) of owners anticipate it taking until sometime in 2021 and 39%

anticipate sometime in 2022, which is likely related to the timeframe most are expecting the majority of the population to be vaccinated and return to normal economic activities. Twenty-two percent are less optimistic and expect conditions not to fully improve until after 2022. Over the last few months, small business owners have been pushing back the time frame that they anticipate business conditions returning to normal. The challenges in the vaccine rollout are likely part of this shift in timeline.

Almost half (48%) small employers have had an employee take Covid-19 related paid sick or family leave. Only 41% of them have claimed the tax credit or an advance refund for reimbursement of those costs, up slightly from 37% about two months earlier.

The distribution of the Covid-19 vaccine is in its second month with varying degrees of success in getting to those most vulnerable populations first including those on the front lines of our health care system and those in long-term care facilities. As more of the general population are eligible to get the vaccine, 37% of small employers will encourage their employees to get vaccinated and 22% report that they might encourage them to do so. As the vaccine rollout continues to ramp up, 62% small business owners have been vaccinated or plan to get vaccinated. Five percent have received at least one dose of the vaccine, 36% will get the vaccine as soon as it's available to them, and 21% report that they will also get vaccinated, but not right away. Thirty-eight percent report that they will get vaccinated, lower than the 44% who reported the same two months ago.

The federal minimum wage debate is again front and center as the Biden Administration presses Congress to pass legislation increasing the federal minimum wage to \$15 per hour. Supporters of the increase are focused on elevating the incomes of those earning the current \$7.25 per hour federal minimum wage or less in the case of tipped employees. However, those small business owners negatively impacted by the increase will have to adjust business operations to absorb such costs to stay in business. The vast majority of small

employers currently pay above the minimum wage. Four out of five small employers have no full-time or part-time employees who are currently paid the minimum wage or less. More than two-thirds of small employers pay all of their employees \$12 per hour or more. More than one-in-three small employers pay all of their employees more than \$15 per hour or more.

The labor market is competitive with employers adjusting compensation to retain employees and attract candidates for open positions. Employers adjust compensation based on experience with lower wages for those entry level positions, increasing that base pay on experience and skills required for various positions. A minimum wage increase to \$15 per hour does not only increase the wages of those positions that fall below \$15 per hour, but often increases many if not all of the wages for those positions above \$15 per hour. Of all small employers, 19% would have to raise wages for all of their employees earning just above \$15 and 22% would have to raise wages for most of their employees. Another one-in-four report that they would have to raise wages for all of their employees.

An increase in the federal minimum wage to \$15 per hour over five years would negatively impact almost three-fourths of all small employers. Seventy-four percent of small employers report that this proposal would negatively impact their business. Small employers report that they would absorb a minimum wage increase to \$15 per hour over five years by adjusting many business operations in addition to experiencing lower earnings, the main financing vehicle owners use to invest in their business, as well as the owners' pay. Of those employers who would be negatively impacted by a \$15 per hour minimum wage increase, 89% report that they would experience lower earnings and 87% report that they would increase prices. An increase in the minimum wage would also impact the small business labor market in a variety of ways. Fifty-eight percent of those who would be negatively impacted report that they would reduce their number of employees, 60% would reduce employees' hours, 67% would leave open positions unfilled, and 56% would increase the use of less expensive or part-time employees.

The economic strain on small businesses due to Covid-19 appears to be easing just slightly for some owners. More are reporting better sales levels and fewer are anticipating that they'll have to close their doors in the next six months. The reopening of the Paycheck Protection Program is likely a main factor in the decrease of those anticipating having to close their doors in the next six months. It is also the case that as the vaccine rollout continues, owners will be more optimistic about their economic prospects, even if they don't see general economic conditions in their area returning to normal for some time. However, the adverse economic impact of the health crisis on small businesses continues. It has been about ten months from the onset of the health crisis and many small businesses are still struggling to survive, trying to reduce costs and adjust business operations accordingly. Depressed sales and profits will likely continue for those businesses dependent on in-person foot traffic until the health crisis is resolved. Others have emerged in better shape with some exceeding pre-crisis sales levels due to increased consumer spending. The K-shaped recovery seems to be most accurate in illustrating the small businesses sector. The health crisis is not impacting small businesses equally and the abrupt shifts in consumer spending, adjusting to slower sales or spending spikes, managing consumer and employees' health and safety, and complying with new government mandates, are creating added stress for most small business owners.

Methodology

This survey was conducted with a random sample of 20,000 NFIB members from NFIB's membership database of about 300,000 small business owners. The survey was conducted by email on January 28-31, 2021. NFIB collected 833 responses.

Questionnaire

Paycheck Protection Program

Did you receive a Paycheck Protection Program (PPP) loan in 2020?

76% 1. Yes

24% 2. No

Have you submitted a PPP loan forgiveness application yet?

63% 1. Yes

20% 2. No, I'm not ready to submit an application yet.

18% 3. No, my bank is not accepting applications yet but I'm ready.

If yes, have you received final confirmation on your approved loan forgiveness amount?

62% 1. Yes

38% 2. No

If you did not receive a PPP loan in 2020, have you applied or are you planning to apply for a first PPP loan before March 31, 2021?

9% 1. Yes, I already applied

8% 2. Yes, I am planning to apply

15% 3. Maybe

59% 4. No

10% 5. Does not apply

If you received a PPP loan in 2020, have you applied are you planning to apply for a second PPP?

30% 1. Yes, I already applied

11% 2. Yes, I am planning to apply

12% 3. Maybe

47% 4. No

If you have applied for a second PPP loan, was it approved, denied, or haven't heard yet?

39% 1. Approved

1% 2. Approved but for a lesser amount than what I submitted

4% 3. Denied

56% 4. Haven't heard yet

If you have applied or are planning to apply for a second PPP loan, are you using the same lender that you used for your first PPP loan?

83% 1. Yes

3% 2. No

9% 3. I don't know yet

If you received a PPP loan in 2020 but not applying for a second PPP loan, is it because you are not eligible for a second PPP loan?

74% 1. Yes, because of the 25% reduction in gross receipts rule

1% 2. Yes, because I have over 300 employees

1% 3. Yes, I didn't use all of my first PPP loan

14% 4. No, I was eligible but didn't want a second PPP

10% 5. Other reason

Employee Retention Tax Credit

The employee retention tax credit is a refundable, advanceable tax credit of up to \$7,000 per employee, per quarter (through June 30, 2021). Employers claim the ERTC by withholding payroll taxes for the amount of qualified employee wages.

How familiar are you with the Employee Retention Tax Credit (ERTC)?

4% 1. Very familiar

32% 2. Somewhat familiar

65% 3. Not at all familiar

Did you take the ERTC in 2020?

8% 1. Yes

92% 2. No

Are you planning to take the ERTC in Q1 and Q2 in 2021?

- 10% 1. Yes
- 44% 2. No
- 47% 3. Maybe

Do you use a certified public accountant (CPA), tax professional, bookkeeper or similar for business purposes?

- 91% 1. Yes
- 9% 2. No

Covid-19 Employee Sick and Family Leave

Have any of your employees taken Covid-19 related sick leave or family leave?

- 48% 1. Yes
- 52% 2. No

If yes, have you claimed the tax credit for reimbursement of those costs?

- 41% 1. Yes
- 59% 2. No

Economy

How does your current sales volume compare to pre-crisis levels?

- 20% 1. More than 100% of pre-crisis level
- 40% 2. 76%-100% of pre-crisis level
- 24% 3. 51%-75% of pre-crisis level
- 9% 4. 26%-50% of pre-crisis level
- 6% 5. 1%-25% of pre-crisis level
- 1% 6. My business is currently closed.

How long do you think it will take before your local community is back to a pre-crisis level of economic activity?

- 5% 1. It is now
- 34% 2. Sometime in 2021
- 39% 3. Sometime in 2022

22% 4. 2023 or later

How long will you be able to operate your business under current economic conditions?

1% 1. Less than 1 month

2% 2. 1-2 months

12% 3. 3-6 months

17% 4. 7-12 months

68% 5. More than 12 months

How does your current number of employees compare to the number of employees you had this time last year?

1% 1. Significantly more

8% 2. More

67% 3. About the same

17% 4. Less

7% 5. Significantly less

Liability

How concerned are you about Covid-19 related increased liability against your business by an employee or customer?

18% 1. Very concerned

31% 2. Moderately concerned

36% 3. Not too concerned

15% 4. Not at all concerned

Vaccine

Do you plan to get vaccinated for Covid-19?

5% 1. Yes, I already have

36% 2. Yes, as soon as it's available to me

21% 3. Yes, but not right away

38% 4. No, I don't plan to get vaccinated

Have you or will you encourage your employees to get the Covid-19 vaccine?

- 37% 1. Yes
- 32% 2. No
- 22% 3. Maybe
- 9% 4. Does not apply

Minimum Wage

What is the minimum wage where your business is located?

- 33% 1. \$7.25 (federal)
- 8% 2. \$7.26 - \$8.00 (state/local)
- 13% 3. \$8.01 - \$9.00 (state/local)
- 6% 4. \$9.01 - \$10.00 (state/local)
- 7% 5. \$10.01 - \$11.00 (state/local)
- 6% 6. \$11.01 - \$12.00 (state/local)
- 10% 7. \$12.01 - \$13.00 (state/local)
- 7% 8. \$13.01 - \$15.00 (state/local)
- 1% 9. More than \$15.00 (state/local)
- 1% 10. I have locations with varying minimum wages
- 9% 11. I don't know

How many full-time employees, including tipped employees, do you currently pay the minimum wage or less?

- 80% 1. None
- 5% 2. One
- 4% 3. Two
- 3% 4. Three
- 9% 5. Four or more

How many part-time employees, including tipped employees, do you currently pay the minimum wage or less?

- 81% 1. None
- 5% 2. One
- 4% 3. Two
- 3% 4. Three
- 7% 5. Four or more

Do you currently pay any of your employees less than \$12 per hour?

31% 1. Yes

69% 2. No

Do you currently pay any of your employees less than \$15 per hour?

65% 1. Yes

35% 2. No

If the federal minimum wage was increase to \$15 per hour phased in over the next 5 years, would it have a negative impact, positive impact, or no impact on your business?

74% 1. Negative impact

0% 2. Positive impact

26% 3. No impact

If negative, how would a phased in \$15 per hour federal minimum wage increase affect your business? Would it or would you___?

A. Lower earnings

89% 1. Yes

9% 2. No

(7%)

B. Decrease the number of employees

58% 1. Yes

39% 2. No

3% 3. DK/NA

C. Reduce employees' hours

60% 1. Yes

37% 2. No

3% 3. DK/NA

D. Leave open position unfilled

67% 1. Yes

28% 2. No

6% 3. DK/NA

E. Raise prices

87% 1. Yes

8% 2. No

6% 3. DK/NA

F. Increase the use of less expensive or part-time workers

56% 1. Yes

34% 2. No

9% 3. DK/NA

How would a \$15 per hour federal minimum wage affect the wages of your workers earning above \$15?

34% 1. No impact

19% 2. I would have to raise wages for those earning just above \$15

22% 3. I would have to raise wages for most of my workers

25% 4. I would have to raise wages for all workers

Demographics

Please classify your major business activity, using one of the categories of examples below.

17% 1. Construction (general contractor, painting, carpentry, plumbing, electrical, etc.)

10% 2. Manufacturing and mining

4% 3. Transportation, communication, public utilities (truckers, movers, broadcasters, etc.)

3% 4. Wholesale

16% 5. Retail

7% 6. Restaurant

7% 7. Agriculture (veterinarian, forestry, landscaping, fisheries, etc.)

5% 8. Financial, insurance, real estate

17% 9. Services (auto repair, house cleaning, salon, etc.)

5% 10. Professional services (attorney, physician, skilled nursing, etc.)

10% 11. Other

Number of Employees

- 6% 1. No employees
- 12% 2. 1-2 employees
- 22% 3. 3-5 employees
- 19% 4. 6-9 employees
- 21% 5. 10-19 employees
- 14% 6. 20-49 employees
- 5% 7. 50-199 employees
- 1% 8. 200 or more employees

Comments: _____