Governments Provide SMEs with Relief for Non-Wage Fixed Costs

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Original post here.

As countries adopt measures to respond to the ongoing COVID-19 crisis, many are providing support to businesses for fixed costs. Fixed costs are those that do not change with the amount of product or services a firm provides. Though a small business may be able to decrease variable costs in response to diminished demand or a government-mandated suspension of operations, small and medium-sized enterprises (SMEs) still face the ongoing burden of fixed costs.

Instruments vary across countries, with some countries providing waivers, grants, deferrals, moratoriums, loans, or even negotiation tools and eviction protection. Most fall in one of the following categories:

1. Multiple fixed costs
2. Rent
3. Property taxes
4. Utilities

We have covered programs that support wages, salaries, and other personnel costs earlier. See our posts on the Paycheck Protection Program, small business support in the United States, and short-time work schemes.

Programs Covering Multiple Fixed Costs

The Netherlands, Austria, and Denmark have all announced fixed-cost subsidy programs to cover a specified amount of fixed costs for companies. Unlike programs that cover specific fixed costs, these programs cover multiple fixed costs.

In the Netherlands, the government announced a EUR 1.4 billion (USD 1.6 billion) support package for fixed costs of SMEs on May 20. On May 28, the government expanded the maximum amount of support and extended the time frame. The program will provide up to EUR 50,000 per company for reimbursement of fixed costs for four months. The size of the grant depends on the size of the company, level of fixed costs, and amount of the revenue loss. Eligible companies are those with at least a 30% decrease in revenue. Wage costs are not eligible under the program, but rent, insurance premiums, lease, and maintenance costs are.

The Austrian government has allocated EUR 8 billion in funding for its fixed-cost subsidy program, which reimburses up to 75% of a company’s fixed costs for up to three months. Eligible costs include rent, insurance premiums, financing costs for leases, utility costs, spoiled goods that have lost at least 50% of their value due to the crisis, and interest expenses; including interest expenses as eligible for reimbursement appears to be unique to the Austrian program. Support is provided in the form of direct grants to companies that experience at least a 40% decline in turnover compared to the same quarter in 2019.
Rent

One significant fixed expense many SMEs face is rent payments. In response to COVID-19, governments at all levels have provided direct support to SMEs in the form of rent waivers, deferrals, and subsidies, as well as eviction protection.

Government as landlord

For some SMEs, their landlord is the government. In these cases, governments have been able to provide rent payment relief quickly and efficiently. St. Lucia, for example, waived rental payments for six months for all small entities renting properties from the government. Bahrain and Burkina Faso instituted similar waivers. Other countries have waived rent payments owed to the government from certain sectors, like tourism-related businesses in Bhutan. In Malaysia, the government’s rent waiver extends to government-linked companies such as the state-owned oil and gas company (Petronas), highway construction company (Plus), and urban-development company (UDA), among others.

The Russian government introduced a support program that waives three months of rent owed to the federal government for SMEs in affected sectors. The measure also defers all rent payments to all levels of government in the country through the rest of 2020.

Private landlord

Governments also provide support for SMEs whose landlord is not the government. These programs are more challenging to implement and often shift the burden from small businesses to landlords; however, many more SMEs rent from private landlords and therefore the impacts of these programs can be significant. These support programs come in two broad categories: (1) moratoriums and payment deferrals and (2) government subsidies of all or part of payments.

Government-mandated payment moratoriums have ranged in duration from a few months (e.g. Albania, Oman, and Slovak Republic) to six months (e.g. Qatar) to even a full year (e.g. Vietnam).

The government of Singapore passed a SGD 2 billion program (USD 1.4 billion) offering grants to SMEs to use for rent payments. For SME tenants of commercial properties, the program will cover two months of rent, and for SME tenants of industrial and office properties, the program will cover one month of rent.

Other programs seek to distribute the costs between the landlord, tenant, and government. The governments of Lithuania and the Czech Republic have each introduced programs whereby landlords of properties with small-business tenants will waive 30% of the rent, the tenant will pay 20%, and the government will pay the landlord the remaining 50%.

Lease negotiation and eviction protection

Many governments have passed laws restricting the actions of property owners in dealing with small business tenants who do not pay rent. In Russia, SMEs may simply terminate their lease without penalty. Spain introduced a mechanism whereby small businesses can renegotiate leases. In the Netherlands and the Democratic Republic of the Congo (DRC), the governments have prohibited eviction during the COVID-19 pandemic (the DRC explicitly defined this period as March through June).
Support through property owners

Rather than provide support directly to SMEs for rent expenses, some governments channel support indirectly through landlords and property owners.

The Canada Emergency Commercial Rent Assistance (CECRA) program provides support to property owners. The support comes in the form of unsecured, forgivable loans. The loans to eligible property owners are forgivable if they reduce rent for small business tenants by at least 75% for the months of April, May, and June. Small businesses eligible for the reduction include those who pay less than CAD 50,000 (USD 37,000) gross rent per location, generate no more than CAD 20 million in gross revenue, and have experienced at least a 70% decline in pre-COVID-19 revenue.

Many governments offer tax breaks to incentivize property owners to reduce rent expenses. For example, Mongolia and Malaysia offer tax rebates or reductions equal to the amount by which rent was reduced. In Russia, the government offers tax deferrals to property owners that defer rent payments.

Property Taxes

Some governments provide property-tax relief to SMEs and other companies through deferrals, penalty waivers, and discounts.

In the Czech Republic, the government is waiving penalties for companies that do not file and pay property taxes on time. This provides an extended window for repayment, but it does not impact the total amount owed. Similarly, Chile provided a property-tax deferral of the first quarter payment to companies with less than UF 350,000 (USD 12 million) in sales. The government is not charging interest on the deferred amount and requires the amount to be repaid with the remaining quarterly payments.

Some countries are targeting specific sectors and industries through property-tax relief. Georgia is providing a property-tax holiday for hotels through November 1. Egypt is providing companies in the industrial and tourism sectors with a three-month extension on tax payments.

Israel has allocated NIS 2.8 billion (USD 806 million) for property-tax discounts for businesses. Businesses will be eligible for a 25% discount on the property-tax bill. Because local government authorities are impacted by a decline in property taxes, the federal government is transferring funds to local governments to make up for the lost revenues. In other countries, local governments have deferred the payment of property taxes, but not always with a federal backstop.

Japan has also reduced property taxes for SMEs. The measure impacts the property-tax bill for 2021, unlike measures in other countries which typically decrease or defer the 2020 amount. SMEs can benefit from a 50% decrease in the tax due if their gross income falls between 30% and 50% for a three-month period between February and October, 2020; SMEs whose gross income declines more than 50% will be exempt from paying property taxes during that period.

Utilities

Some countries are also providing relief for utility payments to SMEs. Relief varies across countries and can take different forms.
In Romania, some SMEs are eligible for utility-payment extensions, which include electricity, gas, water, phone, and internet services. Guinea, Brunei, and Israel provide temporary deferrals for companies that are most impacted by the COVID-19 crisis.

In some countries, state and local governments provide direct support to SMEs for utility payments. For example, San Francisco suspended shutoffs of water and power for 60 days for residential and business tenants and waived interest and fees on late payments. South Carolina, Kentucky, and Massachusetts have also temporarily stopped shut-offs for small businesses during the crisis.