COVID-19 Phase 3 Legislation/Executive Action Recommendations
As of March 19, 2020

The following recommendations from the Precision Metalforming Association and National Tooling and Machining Association are based on a survey of 103 respondents conducted March 17-18, 2020, and direct interviews with a dozen additional manufacturers on March 17-18, 2020.

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Issues Downstream Manufacturers Face:

**Improve Cash Flow Immediately** – Most companies are reporting 2-4 weeks of cash on hand with an equal number reporting one week or more than one month. Most expect following thirty days, would have to draw on line of credit or personal funds to cover expenses. Without revenue coming in, businesses will struggle to meet second payroll. The single most important action today is to improve cash flow in businesses allowing them to keep more cash on hand now to cover payroll and essential operations. Tax deferrals, payroll tax holidays, loans, any steps that immediately inject cash into a business or allows them to retain and free up their cash flow.

**Prompt Payment to Suppliers** – Larger customers have begun to stretch out payment terms for downstream suppliers to 90 and 120 days from traditional 30-60 to help improve their own balance sheets while delaying payments to smaller companies. This occurred during the Great Recession even for companies receiving federal financial support who did not pay their smaller suppliers on time. Accounts receivables will increasingly become a concern for companies of all sizes.

**Risk to Existing Lines of Credit** – Due to regulations, larger banks and other lending institutions may not carry more than a certain number of loans with low cash on hand and a high debt ratio, which could lead banks to revoke or reduce existing lines of credit.

**Ramp up Support After Emergency** – After disaster declaration is lifted, manufacturers can restart full production within 2-5 weeks, however, will not receive payments for roughly 60-90 days after shipment while having to cover payroll, taxes, other expenses even without revenue coming in after restarting operations.

10 Recommendations for Phase 3 COVID-19

Payroll Tax Holiday to Improve Cash on Hand
24-month Small business loans, personal guarantee provision, lift 163(j) interest limit
Government Guaranteed Accounts Receivable Insurance, Loans
Temporary Relaxation of Dodd-Frank Bank Lending Rules for Existing Lines of Credit
Require prompt Payment to Suppliers by Federal Aid Recipients
NOL 5 year Carrybacks
Estimated Taxes Deferral
Temporary Overtime Tax Credit
Program to Encourage Employee Retention Including Part Time Status
e-Learning Training Expenses Subsidy or Tax Credit for Employer Expenses
Concept: Payroll Tax Holiday to Improve Cash on Hand

Precedent: The U.S. has provided employee payroll tax holidays in 2010, where payroll tax was reduced from 6.2 percent to 4.2 percent for 2011 and 2012 to stimulate the economy. There was an employer credit on payroll taxes in 1977.

Action: Employers remit $100 billion to the federal government in the form of Social Security, Medicare and unemployment taxes. An employer-side payroll tax reduction or suspension increases liquidity for businesses that may be insolvent or challenged from loss in revenue. A holiday could give companies space to prevent layoffs they may otherwise have to make. When coupled with the paid family leave credit, that could provide support for companies supporting their workforce as it will free up cash to remain in the business.

Timeframe: Under 500 employees; (Holiday could be limited to a 90-day window to start, to limit the cost.)

Cost Impact: While the employer would temporary suspend paying 7.65% on employee wages, the employee could still remit this amount. Further, keeping individuals employed should allow for these individuals to keep supporting their families and providing demand in the economy. (We would anticipate that the employers would never owe this tax, so the lost federal revenue would be permanent.)

Concept: 24-month Small business loans, personal guarantee provision, lift 163(j) interest limit

Precedent: We have had history of small business disaster loan programs, including the recently created SBA Disaster Loan Assistance program.

Action: Implement on a nation-wide basis immediately rather than state by state and county-by-county certifications. Businesses cannot wait 1-2 months for approval as they struggle to meet payroll in the coming weeks. Consider streamlining the process to provide aid, including removal of the requirement to demonstrate that a business cannot access credit elsewhere as a requirement to receiving the loan and waiving the personal guarantee by the owner for these loans. A 24-month term is ideal but no less than 12 months with the first six months interest free and a gradual escalation not to exceed 3%. Also temporarily lift the interest expense deduction limitation related to these loans.

Cost Impact: Should benefit qualifying small businesses with short term liquidity needs and will be repaid over time.

Concept: Government Guaranteed Accounts Receivable Insurance, Loans

Precedent: Export-Import Bank offers support for receivables from exports to support businesses selling overseas, creating certainty for the business.

Action: During the Great Recession and times of uncertainty, downstream suppliers need assurance their customers will pay for products and parts shipped. Especially under an emergency declaration mandating increased production of certain goods, suppliers need a guarantee of payment for products and services. The federal government should establish a temporary program to guarantee receivables for businesses whose lenders deem a risk due to their customers’ current or potential payments being temporarily at risk.

Cost Impact: Due to the strong health of the economy, few companies reported risk of non-payment by customers, suggesting any risk is temporary in nature, minimizing the federal government’s exposure.

Concept: Temporary Relaxation of Dodd-Frank Bank Lending Rules for Existing Lines of Credit

Precedent: Great Recession

Action: During the Great Recession and following Dodd-Frank, certain larger banks are not permitted to carry loans with higher risk and low cash to debt ratio, a problem expected to increase in the coming weeks. Small profitable manufacturers are concerned their traditional bank will pull their line of credit rather than keep the company on their balance sheets when cash flow suffers. A temporary suspension of Dodd-Frank and other provisions requiring specific cash-debt ratios for loans in a portfolio will help prevent banks from pulling lines of credit.

Cost Impact: Most manufacturers remain profitable in this strong economy and were it not for this temporary cash flow loss, would not face challenges.

Concept: Require prompt Payment to Suppliers by Federal Aid Recipients

Precedent: Federal Acquisition Regulations already include Prompt Payment for Contracts Clauses

Action: Some larger customers have begun to extend payment terms to 90 and 120 days from traditional 30-60 day terms. This allows the customer, often publicly traded, to improve their balance sheets while leaving their supplier to wait twice as long for payments, effectively drawing on their supply base to finance their operations. Downstream suppliers must still cover payroll, ship parts, pay taxes while waiting for customers to pay, a similar situation occurred in 2008 and 2009 when recipients of federal financial support failed to
promptly pay suppliers. Tier 1 suppliers in particular withheld funds received from OEMs. Prompt payment provisions for recipients of federal funds should apply to recipients and their direct supplier and require payment within 45 days.

**Cost Impact:** No loss of federal revenue, increases timeline for tax payments as OEMs pay contractors and suppliers more promptly.

**Concept:** NOL 5 year Carrybacks – request allowance of 2019 carrybacks to get $ in pockets now

**Precedent:** NOLs are a lifeline for businesses in crisis. Looking at the longer arc of history, carryback terms have varied. They have ranged from two to five years most of the past 40 years, but are zero now.

**Action:** Carrybacks allow refunds almost immediately after yearend. Mostly, the carryback program has been successful but it is more like next February to May that the cash from carrybacks flow in. Carrybacks can be filed after yearend and refunds are usually received in 45 days. A further issue with carrybacks is that a loss from 2020 carried back a year or two hits years with low income tax rates. It would take a carryback period that stretches into 2015, 2016 and 2017 to generate tax refunds from higher taxed periods. In some recent past economic downturn events carrybacks have been allowed for five past years and the taxpayer had flexibility to choose the year they wanted to carry to. This allowed higher rated income to be claimed first.

**Scope of who impacted:** We could limit this scope to small businesses and targeted industries

**Cost Impact:** Benefit would be generating more immediate use of the NOLs. It’s a time value of money play for the government.

**Concept:** Estimated Taxes Deferral

**Precedent:** Military service deferrals for up to 180 days.

**Action:** Defer Q1 2020 payments 180 days; allow to make payment at end of the year. Consider also deferring Q2. Also consider safe harbor being based off 50% of the prior year and allowing penalty, interest free payment plans for hardest hit companies.

**Cost Impact:** Temporary loss of federal revenue is ultimately received.

**Concept:** Temporary Overtime Tax Credit

**Precedent:** FLSA permits in some cases employer to claim a tax credit for overtime tips against overtime paid

**Action:** The federal government should permit employers to claim a tax credit for overtime paid during the emergency disaster declaration and for a ninety-day period following the lifting of such declaration as manufacturers and other businesses ramp up operations. Especially for industries deemed essential businesses during the emergency, such as medical device manufacturers and suppliers.

**Cost Impact:** Loss of federal payroll tax revenue for overtime paid

**Concept:** Program to Encourage Employee Retention Including Part Time Status

**Precedent:** California offers tax credits for employee retention, Germany provided subsidies for part time retention.

**Action:** Create a temporary 90-day program allowing businesses to shift a percentage of workers to part time rather than layoff and have the federal government pay the difference between hours worked and 40 hours to make the employee whole. This will allow businesses to retain critical talent while demand is down rather than risk losing employees when ramp up begins following the emergency.

**Cost Impact:** To reduce cost to federal government, could limit to firms with fewer than 500 employees and to only a set number of employees per company.

**Concept:** e-Learning Training Expenses Subsidy or Tax Credit for Employer Expenses

**Precedent:** Pell Grants

**Action:** Manufacturers and other sectors with credentialed or apprenticeable occupations increasingly use online training courses for employees and onboarding entry level workers. During a time when many workers may have shelter in place orders or other social distancing requirements, the federal government should provide a subsidy of 50% and not to exceed $500 per employee to the employer or individual for enrollment or purchase of online training courses for technical skills that lead to an industry recognized qualified credential or certification. This will allow employees to improve their skills and employability leading to increased pay. A tax credit for employer expenses on credential-based e-Learning is a second option.

**Cost Impact:** Limiting the program to businesses with fewer than 500 employees will reduce the costs of this program to the federal government and set an expiration date for application for funding at March 1, 2021.