Navigating the Financial Implications of the COVID-19 Crisis

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Your Success Is Our Business
Today’s Agenda

1. Veterinary Industry Landscape – Essential Service
2. Case A: Vet Clinic with less than a 30% decline in revenue
3. Case B: Vet Clinic with more than a 30% decline in revenue
4. Key Takeaways
5. Appendix - Resources
Impacts on Veterinary Clinics

1. Large Animal: Dairy herd and Feed lot management, (cow-calf, swine and veal industries) with limited Equine
   • Revenue not negatively impacted, even a moderate increase in overall services and pharmacy revenues. Equine practices have seen a decrease.

2. Mixed Animal: Dairy Herd and/or Feed lot management & Companion small animal -- (multi-species practices)
   • Revenue currently stable with moderate short term increases especially on the small animal side as clients have “stock-piled” foods and pharmacy refills.
   • Long term, large animal facility likely to sustain overall revenue enough to not qualify for most economic measures

3. Small animal: Companion
   • Significant expected revenue decrease and disruption in business
   • Government economic measures will be utilized
Veterinary Industry

- List of Essential Workplaces
  - Most provinces list vet practices as essential in some capacity
  - Ontario: # 11 - Veterinary services (urgent care only) and other businesses that provide for the health and welfare of animals, including farms, boarding kennels, stables, animal shelters, zoos, aquariums and research facilities.
    - Urgent care restriction
    - Different impact on large animal vs. small animal
    - Curb side medicine or tele-medicine

- Labour Market: Low supply of RVT’s and in some regions low supply of DVM’s

- Seasonality
  - Not seeing a lot of March revenue declines (increase in food & medicine stock up sales)
  - Upcoming Heartworm season
Case A: Less than a 30% decline in revenue

Generally will continue business as usual, but can still take advantage of some government assistance

• Temporary Business Wage Subsidy
  • 10% of wages from March 18-June 19/20 for eligible businesses
  • Calculated to reduce income tax deductions at source, cannot use to reduce CPP/EI remittances
  • Tax Templates Calculator (Subscribe at www.taxtemplates.ca/wage-subsidy/)

• Canada Emergency Business Account - $40,000 Interest Free Loan
• Defer WSIB*, EHT*, income tax & HST payments
• Employer Health Tax Exemption* on first $1M of payroll (if payroll <$5M)

* Ontario measure
Case A: HR implications

• Employees may request leaves of absence for COVID-19 related impacts ex. childcare, self-isolation

• Employer may decide at 10%-29% reduction of hours to implement Work Sharing agreement
  • 3 way agreement between Employer, Employees and Service Canada
  • Employee Work Units (i.e. all RVTs) equally reduce work hours, remain working but with less hours, claim EI for the missing hours

Case B: More than a 30% decline in revenue

Review projections/estimates and make an open / close decision

Sample Case Study B1: Small Animal Practice, Owner is projecting a 35% drop in April, May & June monthly revenue, decided to keep the clinic open

• 1 DVM Owner, Full Time Equivalent Operator
• 2 DVM Full Time Equivalent Associates –
  • $595,000/DVM – Practice total revenue = $1,785,000
  • 2 Associate DVM full time salary of $95,000/year
• 5 Full Time Equivalent RVTs (1.25 to 1.5 RVT to DVM clinic ratio)
  • $22.00/hr, 2,080 hrs/year
    • $880.00 pay per week at 40 hours
Case B1: Measure Available

Canada Emergency Wage Subsidy of 75% (currently proposed, not legislated) requires:

• Employer attests that an at least a 30% drop in revenue (arm’s length) compared to the same monthly period in 2019
  • Claiming period, made each month
    • March 15 to April 11 based on March 2020 over March 2019 revenues
    • April 12 to May 9 based on April 2020 over April 2019 revenues
    • May 10 to June 6 based on May 2020 over May 2019 revenues

• Calculate revenue using “normal accounting method”
  • Excluding extraordinary items and capital amounts
• Significant penalties for those who try to take advantage of the system
Case B1: Employee Decisions

What to do about 2 Associate FTE DVMs?

Option A) Decide to lay one off?

- Laid off employees applies for Canada Emergency Response Benefit (CERB)
  - $500/week compared to normal pay of $1,827/week
- What happens when business rebounds?
- How to choose one of the two?
Case B1: Employee Decisions

(Associate DVM – Continued)

Option B) Keep both on staff with both working reduced normal hours

• Apply for 75% Canada Emergency Wage Subsidy for both
  • Leave wage at 100%
    • Normally paid $1,827/week
    • Subsidy would be $847 – employer cost of $980/week
  • Reduce wage to $847/week
    • Subsidy is still $847 (not 75% of $847 due to formula)
    • Employer cost is essentially $NIL (just CPP & EI) and associate $347/week ahead of $500 alternative on CERB

• Work Sharing Arrangement
• Alternate ways to provide services?
Case B1: Employee Decisions (continued)

What to do about 5 RVT FTE’s?

Option A) Decide to lay some off
• Those laid off would apply for CERB
• What happens when business rebounds?
• How to choose which are laid off?
• Risk of losing valuable employees

Option B) Keep all staff with 100% pay
• Apply for 75% Canada Emergency Wage Subsidy for all 5 RVT’s
  • RVTs keep getting paid $880.00/week regardless of amount worked
    • Subsidy of $660.00/week per RVT – cost is $220/week to clinic
  • Able to work differently – telehealth?
Case B1: Employee Decisions (continued)

What to do about 5 RVTs? (continued)

Option C) Keep all staff with reduced pay – say to 80%

- Apply for 75% **Canada Business Wage Subsidy** for all 5 RVT’s
  - Wages reduced to $704/week
    - Subsidy from government of $660
    - Employer tops up additional 5% = $44/week
      - $176 less than 100% pay scenario ($220/week), BUT is that difference worth the risks of the pay decrease?
  - RVT still better off as get $704/week compared to $500 on CERB
  - Attest that business doing everything possible to pay full wages
  - Reduce work hours to equally share the remaining work amongst the team
Case B1: Business Measures

- **Canada Emergency Business Account** - $40,000 Interest Free Loan for Business
- Employer Health Tax Exemption* on first $1M of payroll (if payroll <$5M)
- Defer WSIB*, EHT*, income tax & HST payments
- Communication with banker
  - Line of Credit Bulge?
  - Deferral of existing loan obligations?

* Ontario measure
Case B1: HR implications

• Keep employee as “whole” as possible, for as long as possible
  • Reduce constructive dismissal risks
  • Employment Agreements
• Temporary Layoffs (CERB) vs reduction of hours (Wage Subsidy and/or Work Sharing)
• Ensure defendable process (Human Rights)
Case B2: More than a 30% decline in revenue

**Sample Case Study B2:** Owner is projecting a 50% drop in monthly revenue in May & June, decided to close the clinic

- Lay off employees
  - Employees apply for CERB
- Discussion with landlord regarding rent obligations
- Discussion with bankers about existing debt obligations
- Owner eligible for CERB
  - $5,000 income requirement is met even if only compensating with non-eligible dividends
- HR implications: Temporary layoff risks / valuable employees find work elsewhere
Key Takeaways

• Assess now how April, May and June will look for your clinic
• Ensure you are only providing “essential services”
  • Are there different ways to service your clients (i.e. telehealth)
• Try to keep employees on payroll
  • Long term tight labour market tightness
  • Able to ramp back up quickly
• There will be significant penalties for misuse / abuse
• Communicate with your accountant, banker and legal advisor
  • Obtain all available credit in case of extended period of slow down
Usage Notes

• Legislation and program creation required and / or in progress for many measures discussed; details may change.

• The information provided in this presentation does not constitute business advice. It is provided for illustration purposes only.

• Your specific situation and eligibility must be reviewed on a case by case basis.
Appendix: Ward & Uptigrove Resources

• Monitoring and updating information as it becomes available
  • wardanduptigrove.com/covid-19
  • Employer FAQ wardanduptigrove.com/employerFAQ

• Dedicated inquiry email: COVID-19@w-u.on.ca
Appendix: Government program links

Canada’s COVID-19 Economic Response Plan
• www.canada.ca/coronavirus

Canada Emergency Response Benefit application and link to Q&A
• Canada.ca/coronavirus-cerb

Income Tax Extensions
Thank you!