

Your Money: Get Aid or Go Bust? Small Businesses Face Dilemma

By Reuters

April 13, 2020

NEW YORK — Sara Pauly is not one of those small business owners scrambling to fill out paperwork for part of the more than \$350 billion in government aid available through the Paycheck Protection Program or the Economic Injury Disaster Loan.

Instead, the owner of the Rufus and Delilah pet care business in Los Angeles is scaling back her operation for now.

"I have decided to float the business with a personal loan in order to stay afloat and not declare bankruptcy. Hopefully, I will not have to do this for too many months. If so, I may need to re-evaluate my decision," Pauly said.

Many small business owners are in a similar situation, where even an influx of relief cash will not help them stay afloat. The dilemma they face is whether to seek aid or close up, often by going bankrupt.

Since small businesses often are tied into the lives of their owners, personal finances are on the line, too. Many owners mix personal and business expenses on their credit cards and use a house or other personal assets as collateral.

While there are plenty of ways for owners to forestall catastrophe, like negotiating rent or mortgage delays, some businesses just do not have the cash flow to keep things going.

"Business bankruptcies go hand-in-hand with personal bankruptcy," said Carl Peterson, vice president of small firms at the American Institute of Certified Public Accountants.

The first step is to do the math, and that will mean an immediate call to your accountant, if you have one. Ask: "What is my revenue drop? What will it be in the next three to six months? What will my fixed costs be? What deferments can I get?"

"Then you have to figure out if that gap is going to be too large to recover from," said Ian Weinberg, a certified financial planner in Woodbury, New York.

Weinberg noted that for now programs like the Paycheck Protection Program cover just a few months of payroll. One of his clients is a dermatologist with his own practice - if the shutdown lasts too long, he may have to close down and go work for a hospital system.

"He won't stop being a doctor, but he won't be employing people anymore," Weinberg said.

PHASE OUT

Once you have assessed your cash flow, look at your solvency, says Scot Bishop, a certified public accountant and financial planner in Houston. For instance, a restaurateur with a loan coming due in May will have trouble refinancing.

"It's very important who owns the liability on your obligations," Bishop said, noting that if you have personally guaranteed the rent or a loan, your own finances will be dragged down, too.

This is the stage to bring in a business attorney, to sort out either how to ramp down the business legally, or go into bankruptcy.

If you are a one-person shop, you "can go away with minimal effort," said Kashif Ahmed, a certified financial planner in Bedford, Massachusetts. One of Ahmed's clients put his business in hibernation for now.

If you have employees or other obligations like a lease, insurance or inventory, then it gets more complicated.

Anyone with a business structure like an LLC or an S Corporation needs a lawyer to do the proper filing to cease business operations, said Simon Hughes, a business attorney in Houston. Otherwise, you risk being sued by creditors, and you also risk your future business prospects.

Litigation is what brings bankruptcy to a head. "If there is potentially going to be a big judgment against the entity, then bankruptcy is the only way to put a stop to it," Hughes said.

Otherwise, you may be able to negotiate a settlement with creditors, because they realize that it is better to recover something like 70% of what is owed than risk what they will get from a judge.

If your business is so small that you do not have an accountant and a business lawyer on tap, there are resources available from the Small Business Association, said AICPA's Peterson.

Services like Rocket Lawyer provide bankruptcy worksheets for free (<https://www.rocketlawyer.com/document/bankruptcy-worksheet.rl#/>), but this is not a very do-it-yourself pursuit.

"While business owners are legally permitted to represent themselves from start to finish, that doesn't mean being their own bankruptcy lawyer is a good idea," said Charley Moore, an attorney and founder and CEO of Rocket Lawyer.

(Follow us @ReutersMoney or at <http://www.reuters.com/finance/personal-finance>;
Editing by Lauren Young and Dan Grebler)