

Business Revival Toolbox – Focus on Food Production

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For food processing and production companies, COVID-19 has proven exceptionally disruptive to operations, including creating employee challenges, public scrutiny, and vendor/supplier disruptions. Although some in the industry have elected to shut down entirely until the pandemic eases, many have decided to continue operation. For those in this industry that have elected to continue operations and those preparing to re-open, a number of considerations and tools should be evaluated and utilized. These tools, which are part of the “Business Revival Toolbox,” are key items to evaluate and implement for those in the food processing and production industries.

Be Safe and Be Smart. Ensuring the safety of employees and customers must be on the forefront of every decision made when re-opening. This may include creating new physical barriers, separating traffic patterns, and evaluating the risk from people being in close contact. Many in this industry must be close to other people to perform their job or obtain services, which means policies will need to be implemented that ensure the proper people have protective equipment, physical barriers where possible, and clearly documented protocols to avoid unnecessary exposure. In some instances, it may be prudent to consider a waiver, such as with certain types of employees and customers, but it must be finely tuned for its specific purpose. By way of example, a food processing company should implement physical barriers between employees on the production line, stagger shifts and breaks, and reduce those physically present to a number that is appropriate.

Maximize PPP Forgiveness. Many in the food service and processing industries were able to obtain a forgivable loan under the Paycheck Protection Program (“PPP”). Since many of these businesses have received these proceeds and started to use them, steps should be taken to ensure that as much of these funds are forgiven as possible. Any funds forgiven will be transformed from debt to equity. As an example, as food service businesses slowly starts to re-open, business owners are starting to bring back their employees. With these employees coming back, targeting PPP funds to cover payroll and calculating the most efficient time to bring back employees will create the most efficient use of forgiveness.

Tax Opportunities. The United States Congress reacted to the pandemic by passing historic legislation, resulting in extended tax deadlines, which means food processing and food service businesses have been able to defer many important tax decisions. Similarly, the legislation added some incentives, tax credits, and tax opportunities for this industry to revive itself. This means that, once the food processing and food service industries become more stable, it will be critical to the long-term financial future to re-evaluate past tax decisions in light of the opportunities now available.

Reorganize, Restructure, Renegotiate. The food processing and service industries have had unprecedented upheaval, which means that current organizational structures may not be appropriate. Moreover, many vendors, suppliers, and third-parties in the industries have undergone substantial change. Taken together, a food processing or food service company needs to evaluate its overall business operation to determine whether the current structure ensures a steady supply of raw materials, preserves assets, limits liability, and enables a streamlined and efficient operation. Based on the changing raw material challenges in the broader food and farming industries, simply re-opening without a thorough review of operations may not be enough to fully revive the business or, in worse case scenario, survive.

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Tap Unexpected Sources of Capital. The legislative response to the pandemic – together with pre-existing programs that may not have been explored previously – provide all businesses with options for revival capital. Non-PPP loans through the Small Business Administration will offer six months of deferred interest and principal in the wake of the pandemic. Creditworthy enterprises may be eligible for favorable credit terms through the Federal Reserve’s Main Street Loan program.

Investors will have a limited option to tap into 401(k) and IRA accounts via loans and/or distributions without penalty. Programs such as Qualified Opportunity Funds will be available in some cases. Unlike many other tax-advantaged programs, food processing and production businesses are eligible for favorable tax treatment under the opportunity zone program.

Draw Upon Your Community. Anticipate that local leadership – public officials, chambers of commerce, economic development officers and community-based nonprofits – will be offering heightened opportunities for support and public-private partnership. Programs could include economic development incentives, support services, mentoring, investment options or other programs. Most in the food processing and/or food service industries will need the support of the community, whether it is to ensure that employees are readily accessible for continued operation or for the overall sustainment of the business.