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Joint ministerial notice released introducing support measures against the impact of the Corona Virus

The Federal Ministry of Finance has agreed with the Federal Ministry of Economics (“the Ministries”) on a far-reaching bundle of measures to protect jobs and safeguard companies of all sizes and in all sectors. These measures include tax liquidity support for companies. The measures were set out in a notice released on 13 March 2020.

“Protective shield” for employees and companies

For employees and companies affected by the effects of the corona virus, support will be available under what the Ministries refer to as a “protective shield”. This shield will be constructed around four pillars:

1. Making reduced working-hours allowance more flexible

The Ministries point out that Germany has a strong social security system. These associated buttresses support the economy. The Federal Government will ensure that this system is able to operate without restriction. Uncertainty and short-term disruptions in trade flows should not lead to employees losing their jobs. The Federal Government is able to draw on tried and tested measures to achieve this. By the beginning of April, the reduced working-hours scheme will be adjusted in a targeted manner. This will involve a simplification of the requirements for accessing the reduced working-hours allowance:

- Reduction of the quorum of employees affected by loss of working hours in the company to up to 10%.
- Partial or complete waiver of an accumulation of negative working time balances
- Reduced working-hours allowance also for temporary employees
- Full reimbursement of social security contributions by the Federal Employment Agency

2. Tax liquidity aid for companies

In order to improve the liquidity of companies, the options for the deferral of tax payments, the reduction of advance payments and for the enforcement will be made more taxpayer friendly. The measures will provide companies with potential tax deferrals with a total value in the billions. The Finance Ministry has initiated the necessary coordination with the Federal States (“the Länder”) on this issue.

In detail:

- The authorisation of tax deferrals will be made easier. The tax authorities can defer taxes if its collection would give rise to considerable hardship. The tax authorities are instructed not to impose strict requirements in this respect. This supports the liquidity of taxpayers by postponing the date of tax payment.
- Advance payments can be amended more easily. As soon as it is clear that the taxpayers' income is likely to be lower in the current year, the advance tax payments will be reduced quickly without complication. This will improve the liquidity situation.
- Enforcement measures (e.g. account seizures, garnishment) or default surcharges will be waived until 31.12.2020 provided the debtor of the tax payment due is directly impacted by the effects of the corona virus.

For taxes administered by the Customs Authorities (e.g. energy tax and air transport tax), the General Customs Directorate has been instructed to meet the taxpayers' needs in an appropriate manner. The same applies to the Federal Central Tax Office, which will proceed appropriately in its administration of insurance tax and value added tax.

3. Billion-euro shield for businesses and companies

The notice observes that many companies and businesses are currently suffering from a slow-down in turnover through no fault of their own - either due to disruptions in supply chains or a significant drop in demand; this has affected many sectors of the German economy. At the same time, running costs often cannot be reduced at all or only incrementally. As a result, healthy companies can find themselves in financial difficulties through no fault of their own, especially when it comes to their cash position. The Ministries have given assurances that it will protect companies and employees with new and unlimited liquidity measures. Due to the high level of uncertainty in the current situation, the Ministries have made the conscious decision not to put an upper limit on the level of the measures. They have stated that this very important decision is supported the entire Federal Government.

First existing programmes for liquidity support will be expanded in order to make it easier for companies to access favourable loans. These funds can be used to mobilize a considerable amount of liquidity-stimulating loans from private banks. To this end, the Ministries' established instruments for supporting the credit offerings by private banks will be expanded and made available to more companies:

- The conditions for the Kreditanstalt für Wiederaufbau ("KfW" - the Credit Institute for Reconstruction, the largest German public development bank) loans to entrepreneurs (for existing enterprises) and ERP Universal Start-up Loans (for new businesses of under 5 years standing) will be relaxed by increasing risk assumption (indemnity against liability) for working capital loans and by opening the instruments up to large enterprises with a turnover of up to EUR 2 billion (previously: EUR 500 million). Higher risk assumptions of up to 80% for working capital loans of up to 200 million Euros should stimulate the willingness of house banks to grant loans.
- In relation to the programme for larger companies, the previous turnover limit of two billion Euros will be raised to 5 billion Euros. The KfW programme "Loan for Growth" will be converted and made available in future to projects by way of syndicated financing without restriction to a specific area (up to now these were only available for innovation and digitisation). Risk assumption will be increased to up to 70% (previously 50%). This should facilitate the access of larger companies to syndicated financing.
- For companies with a turnover of more than five billion Euros, support will continue to be provided on a case-by-case basis.

For Bürgschaftsbanken (private banks supported by a Federal State which offer guarantees), the maximum guarantee amount will be doubled to EUR 2.5 million. The Federal Government will increase its risk share in

the guarantee banks by 10% so that risks, which are difficult to assess during the crisis, can be assumed more easily. The upper limit of 35% working capital in the total exposure of the guarantee banks will be increased to 50%. In order to accelerate the provision of liquidity, the Federal Government will now allow the guarantee banks to make guarantee decisions up to an amount of EUR 250,000 independently and within 3 days.

The large guarantee programme (parallel federation and federal state guarantees), which has so far been limited to companies in structurally weak regions, will be opened up to companies outside these regions. In this regard, the Federal Government will make it possible to secure working capital financing and investment capital for guarantee requirements of EUR 50 million upwards and with a guarantee ratio of up to 80%.

These measures are covered by the previous state aid regulations.

For enterprises which are temporarily experiencing more serious difficulties in obtaining finance due to the crisis and which as a result do not have easy access to the existing promotional programmes, the Ministries will set up additional special programmes for all such enterprises at KfW. This will be made possible by increasing KfW's risk tolerance in line with the crisis. To this end, the risk assumption for investment capital (release from liability) will be significantly improved and will be available for up to 80% for working capital and even up to 90% for investment capital. In addition, syndicate structures are to be offered to these enterprises.

These special programmes are now being reported to the EU Commission for approval. The President of the Commission has already signalled that she wants to ensure flexibility in the application of state aid rules in the wake of the corona crisis. The EU and Eurogroup finance ministers will work to ensure that the EU Commission shows the necessary degree of flexibility.

The Federal Government will provide KfW with the necessary guarantee volumes so that it can implement these programmes accordingly. This says the Ministries will be possible without any difficulty. The federal budget has a guarantee volume available of around EUR 460 billion. If necessary, this framework can be increased by up to EUR 93 billion.

With export credit guarantees (referred to as "Hermes Cover") the Federal Government will provide the business community with flexible, effective and comprehensive support which is sufficient to cope with a situation that may be comparable in its seriousness to the years after the financial crisis in 2009. The Ministries note that these instruments proved successful then and the funds available in the 2020 budget are sufficient for a comparable increase in any necessary volume of support. This will be supported by a fully backed KfW programme for refinancing export transactions. Where there is any additional demand for export cover and refinancing, the authorisation framework can be increased very quickly.

4. Strengthening European Cohesion

In close cooperation with its European partners, the German Government will interlink its corona measures at European level.

The German Government has stated it welcomes the European Commission's idea of setting up a "Corona Response Initiative" with a volume of 25 billion Euro.

It also welcomes the announcement by the European Banking Supervisory Authorities to use existing capabilities to enable banks to continue to provide reliable liquidity to the economy, as well as the measures announced yesterday by the European Central Bank to provide liquidity to banks.

The German Government welcomes the EIB Group using instruments, which have been tried and tested in past crises, to help companies affected by the corona virus across Europe to deal with liquidity shortages. In particular, the tried and tested EIF portfolio guarantees should be used to secure corporate liquidity.

Source:

Federal Ministry of Finance notice of 13 March 2020.

Schlagwörter

Coronavirus (COVID-19), business support measures