

# Important Coronavirus business measures in Germany

## that you should know

May 8, 2020 by Popa & Associates

Since its emergence, the coronavirus has caused devastating consequences to the whole world's health and economy. Germany is also one of the biggest victims, although it seems to be slightly better off than other main European Countries.

According to the German government's forecast, gross domestic product (GDP) in 2020 will fall by 6.3 percent compared to the previous year. This would plunge the German economy into a severe recession, which would be more severe than in 2009, which was a time of financial and economic crisis. The reason for the sharp decline is the effects of the Corona crisis and the resulting economic shutdown.

German federal government has launched a series of assistance packages of measures for business against the consequences of the coronavirus from March 2020. Here are what you should know about these significant measures.

### 1. Emergency Aid (Soforthilfen)

Special support measures are available for small enterprises in all sectors, self-employed persons who are in difficulty as a result of the Corona crisis and usually have little collateral or other income. These companies are going to be helped quickly and without bureaucratic paperwork.

To protect their liquidity, they will receive a one-time payment for three months, the amount depends on the size of the company:

- up to EUR 9,000 (up to five employees/full-time equivalents)
- up to EUR 15,000 (up to ten employees/full-time equivalents).

This is intended in particular to secure the economic existence of the applicants and to bridge urgent liquidity shortages due to ongoing operating costs, for example rents and leases, loans for business premises or leasing instalments. The one-time payments do not have to be repaid. If the landlord reduces the rent by at least 20 percent, any unused subsidy can be used for a further two months. The emergency aid has a volume of 50 billion euros and also applies to farmers and farms with agricultural production with up to 10 employees.

The Emergency aid can be applied for until 31<sup>st</sup> May 2020, however, different deadlines may apply for state programs. Applications could be submitted electronically to the relevant contact offices in responsible federal provinces.

## 2. German State-owned Development Bank – Special Program (KfW-Sonderprogramm)

In addition to emergency aid for small businesses with up to 10 employees, comprehensive loan programs are available for commercial enterprises of all sizes and the freelancers. The new KfW Special Program 2020 was launched on 23 March 2020. The loan conditions were improved once again. Lower interest rates and simplified risk assessment by KfW for loans of up to EUR 10 million provide further relief for the economy.

With a maximum exemption from liability by KfW of up to 90 percent for operating funds and investments of small and medium-sized enterprises. This would make it easier for commercial banks to grant loans and improves the supply of credit on the market for enterprises.

Applications can be made immediately. The Federal Ministry of Justice and Consumer Protection will also create a regulation under which companies in liquidity difficulties will not have to file for insolvency within a short period of time. This deadline will be significantly extended. This gives companies the necessary time to overcome the crisis.

The following groups of applicants are currently eligible to apply:

- Commercial enterprises, which are majority-owned by private persons
- Social enterprises that operate commercially (not non-profit)
- Housing-building companies for their own investments and working capital
- Leasing companies for own investments and operating resources
- Landlord with business registration
- Cooperatives, if they are subject to corporation tax
- Companies in which private equity investors have an interest (regardless of the size of their shareholdings)
- Companies in which foreign sovereign wealth funds have an interest (in the event of a controlling influence, to be coordinated with the BMWi and BMF in individual cases)

(1) ERP-Gründerkredit Universell (for young companies that have been on the market for less than 5 years) and KfW-Unternehmerkredit (for young companies that have been on the market for more than 5 years):

Loans can be granted up to 1 billion euros per group of companies.

The loans are limited to 25 percent of the applicant company's

- Annual turnover in 2019 or
- Current liquidity requirements for the next 18 months in the case of small and medium-sized enterprises or
- 12 months in the case of large enterprises, or
- Twice the company's salary costs in 2019.

For small and medium-sized enterprises (up to 50 million annual turnover, less than 250 employees), KfW offers a 90 percent risk assumption (indemnity) and for all enterprises exceed this limit an 80 percent risk assumption (indemnity). The indemnifications are secured by a federal government guarantee.

Interest rates have been reduced and range from 1 percent to 1.46 percent for small and medium-sized companies and from 2 percent to 2.12 percent for large companies.

Two options are provided in relation to the repayment of principal and interest rates:

- Up to 2 years with repayment in one sum at maturity and a fixed interest rate for the entire term of the loan;
- Up to 5 years with a maximum of 1 grace year and fixed interest for the entire duration of the loan.

## (2) Direct Participation for Syndicated Financing

Under this promotional programme KfW will in future offer to assume risks of up to 80 percent of the project, but no more than 50 percent of the risks of the total debt.

KfW participates in syndicated financing for investments and working capital with a term of up to 6 years.

KfW's participation is pari passu at market conditions. This means that the economic conditions are provided by the financing institution and assumed by KfW.

The KfW's risk portion is at least EUR 25 million and is limited to:

- 25 percent of the annual turnover in 2019 or
- Twice the salary costs of 2019 or
- The current financing requirements for the next 12 months.

## 3. Tax Aid Measures

Companies of all sizes receive tax aid to improve their liquidity. For companies directly affected by the coronavirus until the end of 2020.

### (1) Tax Deferrals

If companies are unable to make tax payments due this year due to the economic consequences of the corona pandemic, these payments are to be deferred on request for a limited period of time and in principle without interest. Companies can submit the application to their tax office until 31 December 2020.

There are no strict requirements for the approval of the deferral. Companies must demonstrate that they are directly affected. However, they do not have to provide detailed evidence of the value of the losses incurred. This supports the liquidity of taxpayers by postponing the date of tax payment. This measure concerns income and corporation tax and VAT.

## (2) Adjustment of Advanced Payments

Companies, the self-employed and freelancers can also have the amount of their advanced payments adjusted for income and corporation tax. The same applies to the measurement amount for the purposes of business tax advanced payments. They can submit an application to their tax office. As soon as it is clear that taxpayers' income in the current year is likely to be lower than expected before the Corona pandemic, the advance tax payments will be reduced quickly and easily.

## (3) Suspending Enforcement Measures

Enforcement of overdue tax debts should be waived until the end of the year. Surcharges for late payment, which are legally due during this period, are to be waived. This applies to income and corporation tax as well as value added tax.

## 4. Short-time Work Allowance (Kurzarbeitgeld)

Short-time work allowance can now be claimed more easily and under improved conditions, in order to help companies decreasing their burden of paying salary and social insurances for the employees.

a. The benefits of applying KUG are as follows:

- All the amount of employee's social insurance, which needed to be paid by the employer can be 100% refunded.
- The employment can be continued with the employee doing much less work and receive only 60% salary instead of suspension.
- Once the application is accepted by the agency, KUG can be received each month until 31.12.2020 if the company can prove that the special situation is still not improved in each month.

b. The preconditions of application are as follows:

- Considerable loss of working hours with loss of remuneration.
- At least 10% of the employees must have a loss of more than 10% of earnings.
- There must be an unavoidable event (for example, economic causes, lack of orders, measures taken by the authorities, etc.), which caused the loss of remuneration.
- Company must hire at least one employee.
- Notification of loss of working hours and remuneration to the employment agency in Frankfurt.

c. How to apply:

- The notification of the loss of working hours and remuneration must be received within the month, in which the short-time work begins, either in writing or at the place of the agency.
- The application and form can be found and fulfilled online and send per mail or simply online, here is the link for you when needed:  
<https://www.arbeitsagentur.de/unternehmen/finanziell/kurzarbeitergeld-bei-entgeltausfall>

These are the main four measures for everyone who live and work in Germany and suffer from coronavirus at the moment. If you have any further questions about information above or would like to know more about the other measures of the business aid package in Germany, please feel free to contact us.

We hope you keep healthy and all the best.

**Frankfurt Law Office:**

**Igor POPA** – Senior Partner, LL.M. Finance (ILF- Goethe University, Frankfurt am Main)

**Feiyi Sun** – Associate Lawyer, LL.M. International Finance Law

77 Vlaicu Pircalab street,  
Chisinau, Moldova, MD-2012,  
Reception: (+373 22) 22-40-11  
Fax: (+373 22) 22-27-66  
Mobile:(+373 ) 69999920