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FISCAL RESPONSES TO COVID-19

As countries ramp up social distancing measures to combat COVID-19, the economic costs of the virus spiral and the G7 leaders have called on their central banks and finance ministers to take action to support economic and financial stability. **In addition to cutting interest rates, introducing tax breaks or delaying tax collection are some of the measures available to help the economy. This briefing profiles some of the fiscal measures that have been announced or implemented in Germany, Greece, France, Italy, the Netherlands, Spain and the UK.**

GERMANY

"There is enough money available to tackle the crisis and we will use it now. We will take all necessary measures. That is something everyone can rely on."

The German government has published a package of measures to mitigate the impact of COVID-19. These measures include more flexible regulations regarding compensation for reduced hours, strengthening European coherence, a protective shield worth billions of euros for businesses and, last but not least, tax-related liquidity assistance.

Taxpayers, who can demonstrate that they are directly and not immaterially affected by COVID-19, can apply for the following tax-related measures:

- Reduction of tax prepayments: The taxpayers may apply for a reduction of their prepayments of income and corporate income tax as well as trade tax until 31 December 2020 if making the prepayments in full would cause significant hardship and the German tax authorities have been instructed not to impose strict conditions in respect of the reduction.
- Deferral or payments: The German tax authorities will not apply the normal strict requirements when granting a deferral of the due date for tax payments until 31 December 2020, and interest on such deferred payments may be waived. Taxpayers still need to set out why they apply for deferral, but applications will not be rejected because taxpayers are unable to provide detailed prove of the damages that would otherwise arise.
- Waiver of enforcement measures and late-payment surcharges: No enforcement measures will be taken until 31 December 2020. Late-payment surcharges will be waived for the period from 19 March 2020 to 31 December 2020.

The German tax authorities have already promised to implement these measures in a taxpayer-friendly way. It is also expected that further tax-related liquidity support will be provided by the German government.

GREECE

The government has so far announced three sets of financial and tax measures to support businesses affected by the spread of COVID-19. Further measures are expected in the near future.

- Businesses severely affected by COVID-19 will be granted a suspension of VAT payments and verified debts to the tax authorities and an extension of the payment deadline for instalments. The Ministry of Finance will identify such affected businesses by sector and region. The measures will initially apply to March debts, with a possible extension, if required. Payments are suspended for 4 months, that is until 31 July 2020, without interest and surcharges. It is estimated that approx. 440,000 businesses with 1 million employees will benefit from this measure.
- Payment of tax liabilities for March is suspended for 4 months for
  - employees whose employment contracts are temporarily suspended due to the adjournment of the operation of the enterprise under state orders; and
  - freelancers, the self-employed and sole traders operating in sectors with a severe reduction in economic activity due to the spread of coronavirus.
- Companies obliged to stop business due to the spread of COVID-19 are granted a reduction of 40% of the rent on commercial real estate, for the months of March and April; it is expected that the owners of the relevant real estate will be compensated for this reduction by a deferral of the due date for their tax liabilities and instalments of certified debts for 4 months.
- The VAT rate on products necessary to protect from COVID-19 and to prevent its transmission - including masks and antiseptics - is reduced from 24% to 6% temporarily until the end of the year.
- The 2020 Uniform Real Estate Property Tax (*ENFIA*) will be based on the current regime and the new tax values (*objective values*) of real estate (used to calculate the amount of tax due) will now take effect next year.
- The Independent Authority of Public Revenue (*AADE*) will proceed with the immediate repayment of all outstanding liabilities to citizens and businesses, refunding up to €30,000 in all cases under review.

In addition to the above measures, the operation of all courts and public prosecutors' offices is temporarily suspended for the period from 16 March 2020 to 27 March 2020 and public attendance at the offices of AADE is minimized to the extent possible.

FRANCE

The French Government has announced an initial set of exceptional measures mainly consisting of:

- a postponement for three months, upon request by the taxpayers (without having to meet any particular conditions and without incurring a tax penalty), of the payment of their direct corporate taxes (mainly corporate income tax and business taxes), individual income tax levied at source and registration duties. The taxpayers having already paid the eligible taxes may ask for a reimbursement in order to benefit from the three-month postponement;
- a waiver of direct taxes for taxpayers experiencing proven financial difficulties that cannot be mitigated by the unconditional postponement mechanism described above.

These measures are described on the French Treasury's website which also provides a link to the form for the simplified request procedure.

French companies may also request early reimbursement of some of their tax credits for which the reimbursement deadline is in 2020 (subject to filing requirements, and notably the filing of the form computing the balance of corporate income tax due in respect of 2019). The French Treasury has also provided for an acceleration of the reimbursement process for other tax credit, such as VAT refunds.

The French Treasury has indicated that, during the COVID-19 crisis, no new tax audits will be started and current tax audits will, in practice, be suspended (unless otherwise agreed with the taxpayer or the statute of limitations or any other deadline is about to expire).

The French Parliament is in the process of authorising the French Government to take certain additional measures, including the adaption of the rules and deadlines applicable to tax filings, and the rules governing tax audits and the statute of limitations. Based on publicly available information, we would expect that the statute of limitations will be suspended for at least 5 months.

In addition to the above measures, small and medium-sized companies may also benefit from a lump-sum monthly indemnity under certain conditions. Measures allowing the postponement of social security contributions payments have also been taken.

ITALY

FIRST SET OF FINANCIAL MEASURES ISSUED BY THE GOVERNMENT

Late on 17 March 2020, the government issued a set of financial measures, under the decree know as Care for Italy, totalling approx. €25bn.

The aim is to protect the most affected categories of people, e.g., employees, families, the self-employed and small businesses. For example, the dismissal of employees for "objective just reasons" is prohibited for two months and a large number of self-employed people have been granted a €600 lump sum.

On the tax side, tax credits are available for sanitation expenses incurred by companies and self-employed people (for 50% of the expenses, up to maximum of €20,000), and rent due from small businesses that run their business in shops (for up to 60% of the rent due in March). Companies that transfer non-performing receivables to third parties are entitled to convert deferred tax assets into a tax credit. The amount of the tax credit is determined by reference to certain criteria, including the nominal value of the transferred receivables.

In addition, almost every deadline related to tax compliance and VAT payments, withholding taxes and social security contributions has been extended to May or June.

Further details are available on the Ministry of Economy and Finance's website.

The reactions to the decree have been partially positive, but the debate is ongoing. Business representatives (such as Vincenzo Boccia, president of Confindustria) have stressed that the new measures should be no more than a first step towards a far greater liquidity injection to support economic recovery.

NETHERLANDS

Businesses that experience liquidity constraints as a result of COVID-19 are entitled to an extension for the payment of corporate income tax, VAT, wage tax (and, presumably, social security levies) and individual income tax. The extension is unconditional and applies for a period of three months.

Additional extensions may be granted, subject to the submission of further information substantiating the liquidity constraints, which may include a statement from a third party such as an accounting firm. Further guidance on information to be submitted for additional extensions will be released in the coming weeks.

Late payment interest has been reduced to 0.1% (from 8% for corporate income tax and 4% for all other taxes) and no administrative penalties will be imposed for the late payment of taxes.

The measures are part of a broader emergency package that was announced by the Dutch government on 17 March 2020 and which includes subsidies for up to 90% of wages for businesses that experience a decrease in turnover of more than 20% as a result of COVID-19, income support for free-lancers and extensive credit support for a range of businesses and sectors.

SPAIN

"Ensuring liquidity in the economy"

Spain has declared a state of emergency for a period of at least 15 days. One of the government's main concerns is to ensure liquidity in the economy after this time of very limited business activity. In this regard, several tax measures have been approved in the past few days.

Companies with a trading volume of approx. €6m or less in tax year 2019 may defer the payment of tax debts owed to the State of up to €30,000, payable pursuant to tax returns and self-assessments that must be filed and paid between 13 March 2020 and 30 May 2020 (inclusive). This deferment will be granted without requiring guarantees.

Whilst several amendments to time periods have been made during the state of emergency, it is important to bear in mind that **the deadlines for submitting tax forms are not affected by these changes and the taxpayers must, therefore, continue to submit their tax forms and pay any tax due in accordance with the applicable deadlines**. The following changes to time periods are relevant to tax:

- Terms and deadlines of legal proceedings before the administrative courts (*jurisdicción contencioso-administrativa*) have been suspended.
- The statute of limitation (*prescripción*) and expiry (*caducidad*) periods for tax purposes has been suspended from 18 March 2020 until 30 April 2020.
- The time limit for payments due as a result of tax assessments has been extended, including in respect of payments which are already in their enforcement period (*periodo ejecutivo*) and those which are due under deferment or split payment resolutions.
- The time period to reply to requests, seizure orders and to submit statements in different tax proceedings has also been extended, but this does not affect the time limit for submitting statements in economic-administrative proceedings.
- The period from 18 March 2020 to 30 April 2020 will not be taken into account for the purposes of computing the maximum time period in which the State tax authorities must commence proceedings (i.e. tax inspections or tax penalty proceedings).
- The time period for filing economic-administrative and administrative appeals will not be initiated between 18 March 2020 and 30 April 2020.
- The time limit for replying to requests by the Cadastral General Directorate has also been extended.

In addition to the above measures, certain Autonomous Regions and different towns have approved certain measures with regards to the terms and deadlines of the taxes which they manage, and reductions in such taxes. For instance, the Madrid City Council has approved:

- a 25% reduction in Real Estate Tax for real estate assets dedicated to commercial, leisure or hospitality, if employees are retained
- a 25% reduction in Business Activities Tax for taxable persons in the leisure, hospitality or tourism industries or running commercial or department stores, if employees are retained
- a deferral of payment in respect of other local taxes

An exemption from Stamp Duty on public deeds which record a novation of mortgages or credit facilities has been approved, in accordance with Royal Decree-Law 8/2020.

UK

"We will do whatever it takes"

For all UK businesses, VAT payments will be deferred for 3 months; this deferral applies from 20 March 2020 until 30 June 2020.

To ease the burden on small businesses, measures were announced to ensure that, temporarily, no business rates (periodic property taxes charged by reference to a property's value) would have to be paid in respect of nearly half of all business properties. In addition, certain pubs still subject to business rates would benefit from a temporary £5,000 discount. The UK tax authorities have also set up a dedicated helpline for affected businesses to discuss, for example, a potential deferral of their tax liabilities.

Further details on these and other measures to support businesses, including the provision of certain government-guaranteed funding and the Coronavirus Job Retention Scheme pursuant to which the UK's tax authorities will reimburse 80% of designated worker's wage costs, up to a cap of £2,500 per month, is available on a regularly updated government website.

Employees forced to work from home may be able to claim a flat rate income tax deduction in respect of their expenses. Unfortunately, it is not entirely clear whether the deduction is, indeed, available in respect of temporary arrangements, such as those put in place in response to COVID-19 – the Association of Taxation Technicians has asked the UK government to clarify this.

Freelancers would have been pleased by an announcement that the controversial IR35 reforms (meaning, broadly, that certain free-lancers would be treated as employees for tax purposes) will be postponed. But commentators have already suggested that more needs to be done.

Sector-specific measures may also be expected given the Chancellor Rishi Sunak's announcement that the UK government will meet "with business leaders and representatives in the most affected sectors, to identify other specific opportunities to support them and their industries" and that "we will do whatever it takes".

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