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COVID-19 Swiss Government Measures Supporting Business

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Overview

In addition to drastic interest rate cuts, central banks and governments across the globe have taken action, predominantly in the form of fiscal spending (e.g., tax cuts and holidays), large lending schemes, employment related aids as well as certain insolvency law related reliefs, to help businesses weather the COVID-19 storm.

This presentation provides an overview of the measures taken by the governments in Switzerland and China.

Cash is king and we continue to help clients identify how these government measures can reduce their expenses and bolster their cash position.

No limitation to Swiss owned businesses - No international cap

As a rule, the Swiss aids apply to businesses/companies based in Switzerland **regardless of the nationality of the shareholder(s)**.

To date, no 'unified' approach has been taken by governments in different jurisdictions, and for internationally present corporate groups the key thing to note is that there is no international cap on government aid. International corporate groups present in Switzerland and elsewhere should have a plan in place to access what they can where they can.

Interaction with other legal obligations

COVID-19 caught governments by surprise and little thought has been given to the practical implications of a company accessing state-backed lending programs. This means each company should carefully consider how government relief interplays with its existing financing arrangements, as waivers or consents to access the funding may be required.

Adherence to directors' duties

In these unprecedented times, directors of companies will need to be well-prepared by having a solid understanding of directors' duties and the insolvency framework in the jurisdictions within which their businesses operate. Some jurisdictions, including Switzerland, also have already taken steps to adapt insolvency law in light of COVID-19 (see Slide 15 below).

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Switzerland

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES

Loan guarantees / Hardship regulations

- Swiss companies will be able to obtain loans of up to a maximum of 10% of their revenue or a maximum of CHF 20 million. Swiss commercial banks are required to pay out up to CHF 500,000 per company upon request without any further requirements, i.e. the banks do not carry out a credit check, and the federal government will act as a guarantor for the full amount.
- Interest on these loans is 0.0% p.a. For loan amounts exceeding CHF 500,000 a short bank check is required and the federal government will act as a guarantor for 85% of the amount of the loan. Interest on the 85% of these loans is 0.5% p.a. Interest on remaining 15% is subject to negotiation with the respective bank.
- There are no security requirements on the loans up to CHF 500,000 (the federal government will act as a guarantor). For loan amounts exceeding CHF 500,000 the banks may ask for securities.
- In addition, four recognized Swiss guarantee organizations will be able to grant guarantees of up to CHF 1 million per company. The bank loans received through the guarantees must be repaid but the Swiss government has eased the conditions for obtaining these types of guarantees.
- Companies can download a form on the federal government's website or from banks. They can then send them online or by mail to their house bank. Up to a sum of CHF 500,000 credit decisions were made very fast, in some cases/ideally within 30 minutes.

ELIGIBILITY

- Swiss companies and other Swiss businesses that (i) are not subject to bankruptcy or composition proceedings and (ii) have been significantly adversely affected by COVID-19.
- Swiss companies whose turnover in 2019 exceeded CHF 500 million are not entitled to apply for the state guaranteed loans. For such companies, which are rather large by Swiss standards, in-depth reviews and tailor-made solutions are needed. Such solutions have been implemented for companies in the aviation sector.
- For loan amounts exceeding CHF 500,000, the bank checks the creditworthiness of the debtors - and they are also entitled to reject an application, e.g. for companies that were already in financial difficulties before 1 March 2020.
- Banks can reject the application, e.g. if they suspect money laundering.

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY
<p>Loan guarantees / Hardship regulations</p> <ul style="list-style-type: none">— The debtors must repay the loans within five years. If this is not financially feasible for them, the period can be extended to seven years.— The loans are not regarded as debt capital in the first two years in the bank analysis. Their debt situation will therefore not deteriorate.— Banks are obliged to inform the government if a company defaults on interest payments or amortization. If losses are incurred, the government must attempt to recover the money.— If an entrepreneur makes false statements or uses the loans in an illegal manner, fines of up to CHF 100,000 are possible. The loans are also recorded in a database.	<ul style="list-style-type: none">— State guaranteed loans may only be used to secure liquidity needs. The guaranteed loan may not be used for investments or expansion of the inventory. Only replacement investments are allowed. This is to incentivize the companies to repay the loan as quickly as possible and, thus, regain complete entrepreneurial freedom.— For as long as any state guaranteed loans are outstanding the respective companies are not allowed to distribute dividends or make other distributions, extend loans, refinance internal or external debt or pass on proceeds of such loans to group companies abroad (exemptions as per bullet below).— Swiss companies are permitted to extend or repay loans to other Swiss group companies in order to allow them to comply with pre-existing debt service obligations (interest and amortization payments as of 1 January 2021). Special rules / restrictions apply for cash pool arrangements (need to be assessed on a case by case basis).

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES

Loan guarantees / Hardship regulations

- The volume of the guarantee scheme by the Swiss government was raised from initially CHF 20 billions to CHF 40 billions.
- On the first day banks awarded COVID-19 loans of around CHF 2 billions. By the end of April 120,000 loans in the total amount of CHF 16.9 billions were obtained. Since then new requests only arrive sporadically.
- 122 different banks participate in the program, i.e. practically all banks in Switzerland that are active in the credit business.
- New requests can be submitted until 31 July.

USE OF THE MEASURES

- However, it appears as if most of the companies that requested a loan did so mainly as a precaution and 'just in case'.
- Only around one fifth of the obtained loans have actually been used.
- The great benefit of the loans is also their symbolic effect. The knowledge of this non-bureaucratic financial aid has given the companies security.

China

COVID-19 Response: China

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY / DURATION / TIMING
<p>Loan guarantees / Hardship regulations</p> <ul style="list-style-type: none"> — Emergency response fund for business that are essential to pandemic control (e.g. manufacturer of medical protection gear). <ul style="list-style-type: none"> — The distribution of the emergency response fund is coordinated by the Ministry of Finance and the local (provincial) agency of the MoF. By 8 February, the emergency response fund amounted to CNY 71.85 billion in total. Some of it was used for boost liquidity for business. — Designated credit line for qualified business and state subsidy on interest payment: certain qualified business can applied for special credit line and receive subsidy for interest accrued on such special credit line. <ul style="list-style-type: none"> — On 2 February, Chinese central bank released in total CNY 300 billion as designated credit facility for qualified business. — Varies state-backed loan guarantee and discounted interest rate policies: the implementation depends on the province and industry. For example: <ul style="list-style-type: none"> — Shanghai has provided an interest rate cap of 4.55% for credit facilities extended to qualified businesses from 14 Shanghai based banks and building societies. Beijing has lowered the rate of guarantee service charge for guarantee services provided by state-run non-bank guarantee service provider. — Flights to and from China during the pandemic time could receive incentive or subsidy (applies for all civil aviation companies that operates routes to China). 	<ul style="list-style-type: none"> — Most of the funding programme have already been concluded / fully subscribed for the current stage. The Chinese central bank is planning for additional financing programme for SMEs. — «Qualified businesses» often include those that are essential to pandemic control, those provide daily necessities, and SMEs. There are conclusive category of all businesses that are considered as «qualified». — Companies should consult local policies on the actual benefit can be enjoyed.

Switzerland

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES

Tax payments / Social security contributions

- The Swiss government has implemented a liquidity buffer for tax payments and extended payment deadlines without interest on arrears. As a consequence, the interest rate for VAT, customs duties, steering taxes and certain other taxes will drop to 0%. The interest reduction is applicable for the period from 1 March to 31 December 2020 (for the direct federal tax) or for the period from 21 March 2020 to 31 December 2020 (for VAT and similar taxes), respectively.
- In addition, companies are entitled to a temporary and interest free deferral of payments for social security contributions. They also have the option of having their regular account contributions adjusted if their aggregate salary payments decrease significantly.

ELIGIBILITY

- Companies subject to the Swiss tax regime. The new regime applies at the federal level. Cantonal tax regimes are not harmonized and vary from canton to canton.

China

COVID-19 Response: China

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY / DURATION / TIMING
<p>Tax</p> <ul style="list-style-type: none"> – Qualified business can take the costs of production infrastructure acquisition that were conducted in connection with expanding production ability in light of the pandemic as tax deductible for income tax. – Qualified business can applied for refund for certain tax benefit generated after 1 January 2020. – VAT relief for logistic services provided in connection with the pandemic control, and for business that provide services that are daily necessity (e.g. courier services and taxi). – Business that are materially affected by the pandemic (e.g. restaurant and hospitality) can carry-forward losses generated in the year 2020 for max. 8 years (instead of 5) – Each province is authorized to grant small and medium-sized tax payers income tax (including withholding tax payable) discounted tax rate, exemption and / or deferral. – Custom and other import tax or charges reliefs on goods imported in connection with pandemic control (e.g. medical protection gears) 	<ul style="list-style-type: none"> – Applicable for tax period starting from 1 January 2020 – Qualified business are those included in indexes prepared by Ministry of Industry and Information – Localized policy applicable.

COVID-19 Response: China

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY / DURATION / TIMING
<p>Social security contributions</p> <ul style="list-style-type: none">– Companies that are experiencing difficulty in operation due to the COVID-19 pandemic can apply to defer / holdover the social security contribution due. In principle, the deferral period should not be longer than 6 months. No late-payment penalty is accrued during such deferral period.– Each province (other than Hubei Province) is authorized to grant small and medium-sized enterprises exemption from making social security contribution for no longer than 5 months, and to grant larger-sized enterprises and other institutional participants (excluding governmental departments and public institutions) discounted rate of social security contribution (50%) for no longer than 3 months.– Hubei province can grant all institutional participants (excluding governmental departments and public institutions) exemption from making social security contribution for no longer than 5 months.	<ul style="list-style-type: none">– Starting from February 2020– Localized policy applicable.

Switzerland

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY
<p>Temporary halt on debt collection procedures</p> <p>Simplified temporary (3/6 months) debt-restructuring moratorium and deferral of duty to file for bankruptcy (each subject to certain conditions)</p>	<ul style="list-style-type: none">— Companies/individuals in Switzerland— Certain privileged claims (in part certain salary claims) not covered by COVID-19 related moratorium rules
<p>Rental payments for residential or commercial real estate can be paid within 90 instead of 30 days</p>	<ul style="list-style-type: none">— Applies for rental payments due between 13 March and 31 May 2020

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY
<p>Short-time work</p> <ul style="list-style-type: none"> – Companies can apply for compensation (via their insurer) for 80% of the cost of an employee’s wages which is attributable to the reduction in working hours as a result of COVID-19 (capped at the maximum insurable salary amount of CHF 12,350 per month). – This scheme relates to employees who are: (i) in a non-terminated fixed contract, (ii) in a temporary employment relationship; (iii) completing an apprenticeship, (iv) employed on a temporary basis; or (v) in a management position. – The measure is in place for 12 months; the government is in discussions to extended it to 18 months 	<ul style="list-style-type: none"> – Companies in Switzerland (NB: they must provide credible evidence as to how the expected decrease in work in their company relates to COVID-19 (i.e. there must be a casual link between the work stoppage/reduction and COVID-19)). – Until present, short-time work has been applied for almost 2 million employees, i.e. about 37% of all employees nation-wide. – The respective costs for the government are currently at CHF 25 billions; together with further measures, the government has spent 31 billion on COVID-19 response measures.

COVID-19 Response: Switzerland

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY
<p>Compensation for loss of earnings</p> <p>Compensation for parents.</p> <ul style="list-style-type: none"> — The entitlement begins on the 4th day of the care-related incapacity to work. The compensation (paid as a daily allowance) corresponds to 80% of the average income, but not more than CHF 196 per day. <p>Compensation for loss of earnings</p> <ul style="list-style-type: none"> — The entitlement begins on the day on which all eligibility criteria are met, i.e. on 17 March 2020 at the earliest. The compensation (paid as a daily allowance) corresponds to 80% of the average income, but not more than CHF 196 per day. The compensation is limited to 10 daily allowances. <p>Compensation for self-employed persons</p> <ul style="list-style-type: none"> — The entitlement begins on the day on which all eligibility criteria are met, i.e. on 17 March 2020 at the earliest and for a maximum of up to 2 months, and the compensation (paid as a daily allowance) corresponds to 80% of the average income, but not more than CHF 196 per day. — There are motions pending in Swiss parliament to extend these measures until mid of September 2020. 	<ul style="list-style-type: none"> — Entitled to compensation are employed or self-employed parents with children under 12 years of age who require leave of absence from their employment because third-party care of the children is no longer guaranteed (e.g. due to school closures or because the caregiver is a particularly vulnerable person). — Entitled to compensation are employed or self-employed persons who require leave of absence from their employment because of a quarantine measure — Entitled to compensation are self-employed persons who suffer loss of income (i) due to a closure of business or the ban on events ordered by federal law or (ii) if this is the result of the Corona pandemic irrespective of whether their professional activity is prohibited — Government spend: CHF 600 million

China

COVID-19 Response: China

GOVERNMENT MEASURES FOR BUSINESSES	ELIGIBILITY / DURATION / TIMING
<p>Government Procurement</p> <ul style="list-style-type: none">– Preference on certain business for government procurement in connection with the pandemic control (e.g. construction project of temporary hospitals and caring facilities, procurement of medical protection gears)	<ul style="list-style-type: none">– Localized policy applicable.

Note:

This document only summarizes key measures implemented to benefit businesses operating in Switzerland

The measures described above were in place as of 4 June 2020. Updates and amendments of government measures are expected.

THANK YOU

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