



CORPORATE M&A AND BANKING AND FINANCE

Coronavirus: Measures to support businesses

In the fight against the Covid-19 pandemic, the scale of measures to protect public health and their consequences are starting to be felt by businesses and, in particular, they are suffering from strains on cash flow. As a result, on Wednesday, 18 March, the Portuguese Government approved and presented a package of economic measures to support companies.

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The package focuses on three fundamental items:

- lines of credit guaranteed by the State;
- the banking system; and
- greater flexibility in tax and social security payments.

Lines of credit guaranteed by the State

The lines of credit approved amount to a total of EUR 3 billion and they are intended to provide cash flow support to small, medium and micro enterprises in the restaurant, tourism and industry sectors. This new amount comes in addition to two lines of credit already approved by the Government with a total value of EUR 260 million. One is general, with EUR 200 million available for businesses in sectors not covered by above lines of credit. The other has EUR 60 million specifically for the tourism sector.

For companies in the restaurant and similar sectors, the Government has approved a line of credit of EUR 600 million, of which EUR 270 million is intended for micro and small businesses.

For businesses in the tourism sector that qualify as travel agencies, entertainment and event organisation companies, and similar, the Government has approved a line of credit of EUR 200 million euros, of which EUR 75 million euros will benefit micro and small enterprises.

For businesses in the tourism sector that qualify as tourism resorts and tourist accommodation, the Government has approved a line of credit of EUR 900 million, of which EUR 300 million is for micro and small enterprises.

Finally, the Government has approved a line of credit of EUR 1300 million to support companies in the industry sector, in particular textiles, clothing, footwear, extraction, and wood. Of this amount, EUR 400 million is reserved to support micro and small companies that operate in this sector.

These four lines of credit focusing on four different sectors are guaranteed by the State and intended for micro-enterprises, SMEs, and small mid cap and mid-cap companies with a (i) positive net results in the last approved balance sheet, or (ii) negative net results and regularisation in an interim balance sheet approved by the date of the operation. They will be made available through the banking system and they will have a grace period of up to 1 year and can be amortised in 4 years. The maximum allocation per company will be EUR 1.5 million. In addition, the credit transactions to be concluded using these lines of credit will benefit from a guarantee of up to 90% of the outstanding capital and from a counter-guarantee of up to 100%. According to the clarification from the Government, these lines of credit will only be available to companies that maintain their existing number of jobs.

In the next few days, we expect to hear about other terms of these lines of credit, in particular, the interest rate and the range of the spread applicable after the grace period. We should also hear about any requirements in addition to those already announced, including the maximum turnover for the candidates, and about process for deciding on the operations and the deadlines for their approval.

The government has announced the revision and relaxation of the conditions of the line of credit called *Linha de Crédito Capitalizar 2018 – Covid-19*, which was announced last week and which, unlike those now announced, is not intended to support any specific sector, but rather businesses in general. The terms in which access to this line of credit will be reviewed and made more flexible are yet to be confirmed. In addition to the four lines of credit now approved by the Government, others with a value of EUR 260 million are still available. They are:

- *Linha de Crédito Capitalizar 2018 – Covid-19* provides an amount of EUR 200 million to support treasury needs and it is part of the programme *Programa Capitalizar* (also operated by the banking sector). It covers sectors not covered by the lines of credit listed above and is aimed at micro-enterprises, SMEs, small mid cap and mid cap companies with a positive net result in the last balance sheet approved or a negative net position and regularisation in an interim balance sheet approved by the date of the transaction. There is a maximum allocation of EUR 1.5 million per company and recipients benefit from a guarantee of up to 80% of the outstanding capital and counter-guarantees of up to 100%; and
- There is also a line of credit of EUR 60 million euros for micro-enterprises in the tourism sector (operated by Turismo de Portugal), which are licensed and registered in the National Register of Tourism. They must not be a company in difficulty and must not have been subject to judicial or administrative penalties in the last 2 years.

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The banking system

The Government has announced that it is monitoring the work being done by Banco de Portugal and the banking system, in particular with the APB (Portuguese Association of Banks), to establish a moratorium on payments of capital and interest. Furthermore, the Government is committed to approving all the legislation necessary to implement this by the end of March.

Tax and social security obligations

This highlight in this area is the Government's decision to extend the deadline for compliance with tax obligations (tax returns and payment) relating to corporate income tax (IRC), specifically:

- Postponement of the Special Payment on Account from 31 March to 30 June;

- o Extension of the deadline to file the form *Modelo 22* (corporate income tax return and payment/settlement) to 31 July;
- o Extension of the deadline to make the first payment on account and the first additional payment on account from 31 July to 31 August;
- o Possibility to split the payment of tax contributions, in particular, payment of VAT and payment to the State of withheld personal and corporate income tax, into (i) 3 monthly instalments without interest, or (ii) 6 monthly instalments with interest on arrears applicable to the last three instalments. Neither of these options requires any guarantee, but the options will only be available to companies with a turnover of no more than EUR 10 million in 2018, or to companies that began their activity on or after 1 January 2019. Companies that do not meet any of the above requirements can still apply for these flexible payments if they have suffered a decrease in turnover of more than 20% on average in the three months preceding the month in which this obligation arises (by reference to the same period in the previous year).
- o Extraordinary support to maintain employment contracts in companies suffering from a business crisis with a value of two thirds of the salary, with the Social Security paying 70% of this amount and the remainder being paid by the employer;
- o Extraordinary IEFP training plan, with a support of up to EUR 635 for each employee;
- o An extraordinary financial incentive to support the normalisation of the company's activity of EUR 635 per employee.

Finally, the Government has decided to suspend for three months all tax and social security enforcement proceedings that are ongoing or have been issued by the competent authorities. ■

With regard to social security contributions, The Government has approved a reduction by two thirds in the contributions payable for the months of March, April and May of 2020, with the remainder being paid under instalment plans for 3 or 6 months from the second half of the year. Additional measures have also been announced:

"The Government has decided to suspend for three months all tax and social security enforcement proceedings that are ongoing or have been issued by the competent authorities."