

Recommendations for Economic Relief

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American Chamber of Commerce in Croatia *Američka gospodarska komora u Hrvatskoj*

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Introduction

The Government of the Republic of Croatia adopted a set of measures for alleviating negative economic effects of the coronavirus epidemic. The American Chamber of Commerce in Croatia is supporting the efforts of the Croatian Government to help entrepreneurs overcome the upcoming period, ensure liquidity and secure jobs. The AmCham also supports the decision of the Croatian Government to adapt the measures to potential future special circumstances.

Seeing as the European economy, and by connection the Croatian economy, is facing a complete shutdown of all economic activity (border closures, blocked passage of people, considerable deceleration of the traffic of goods, airport closures, etc.) in a period that might prove to be potentially fatal to a large number of companies, most European countries have adopted measures for unconditional aid to the business sector as the fundamental provider of economic stability and social peace, particularly to micro, small and medium-sized enterprises.

With the aim of contributing to economic liquidity and job preservation of all companies doing business in Croatia, not merely its own members, AmCham has drafted a proposal of additional measures that would, if adopted, contribute to financial and economic stability. We think that this situation warrants the introduction of measures for **maintaining the liquidity of companies, securing employment, i.e. jobs, ensuring the supply chain, stimulating post-crisis consumption and tax reliefs**. The measures drafted by AmCham were designed in line with the measures already adopted by the Croatian Government or they were based on the economic relief measures adopted by other countries in light of the coronavirus outbreak.

Key Economic Measures

1. *Measures for Ensuring Liquidity*

Establishing state loans and HBOR (Croatian Bank for Reconstruction and Development) guarantees (in the amount of ca. 10% of the GDP in accordance with the experience of other countries)

Establishing resource funds for those economic sectors primarily affected by the crisis (e.g. tourism)

Securing resources for small and medium-sized enterprises with impaired liquidity

Economic measures adopted by the Croatian Government include a series of measures for preserving liquidity under the responsibility of HBOR, with the most important measure being:

- Granting new liquidity loans to companies for the purpose of financing salaries, overhead expenses and other basic business expenses (with the exception of loan obligations towards commercial banks and other financial institutions) in cooperation with commercial banks.

We suggest that this measure includes the granting of credit lines with the obligation of repayment within 2 years at a 0% interest rate (like the Czech Republic). The funds for this measure could be secured by state borrowing through issuing bonds or borrowing resources from pension funds, with the government's obligation to return those resources within a specified period.

Similar measures for preserving liquidity were adopted by Austria and Germany.

2. Measures for Preserving Job Positions

Considering the fact that many employers already face illiquidity and suspended salary payment problems, additional measures are required in order to efficiently protect job positions.

Implementing a model of shorter working hours

Implementing obligatory vacation time during the crisis

Subsidizing employee salaries in the private sector

Exploring the possibilities of reducing public administration costs

As demonstrated by the example of other countries, a great deal of measures is directed towards state co-financing for all employers facing difficulties as a result of the COVID-19 outbreak. Said measure should apply to all affected enterprises and all permanent employee levels (including the management level and owners employed in the enterprise).

These measures should enable the reduction of working hours, reduction of salary burdens (taxes and contributions, i.e. the gross part of the salary) and state aid for net salary payments.

It is necessary to implement **income tax and tax contribution write-offs** for three months, within the period of 1 April to 30 June, for the purpose of preserving job positions. We suggest that the measure be implemented within a period of 3 months, with the possibility of extension.

The measure is aimed at preventing further decline in the economic and purchasing power of the taxpaying natural persons due to the crisis, so as to enable them to continue to settle their due obligations and procure the required services and goods (for which they also effectively pay VAT, which is the most significant element of the tax revenue structure of the national budget). By eliminating the income tax and contribution payment obligations during a limited time period, the employers will be able to keep their employees and pay them their net salaries.

With regard to the issue of workers currently not employed on a full-time bases, we suggest the introduction of a **shorter working hours model**, as per the example of Austria, which enables the reduction of working hours for employees affected by COVID-19 to 0%.

Temporarily shorter working hours represent a temporary reduction of salaries as well due to economic difficulties. The purpose of the measure is the reduction of work costs and preserving the work force. 70% of the current salary must be secured for workers that are not working, and a lower percentage in the case of workers that continue working, with a part of their net salary covered by the state.

Similar models – Austria

The employment contract must be complied with throughout the duration of the measure and at least a month afterwards. An exception can be made with regard to the retention obligation in special cases. Salary reduction resulting from the measure is compensated by the Austrian Employment Office in the form of a monetary contribution from 80 to 90 percent of the salary according to the following scheme:

- 90% of the gross pre-measure salary for gross salaries of EUR 1,700;
- 85% for EUR 2,685;
- 80% for EUR 5,370;
- 100% of the net salary for trainees;
- No aid for salaries over EUR 5,370.

The employer also receives aid for the relevant contributions.

Prior to using the measure, all vacation days of the previous year must be used, as well as any other annual leave. If work lasts for more than three months, workers are entitled to using an additional three weeks of annual leave. The following steps are crucial for implementation:

1. Using the vacation time for the previous year and annual leave;
2. Afterwards, the salary cost is divided between the employer and the Austrian Employment Service, for example: the gross salary of an employee is EUR 2000. According to the model, their working hours have been reduced by 50%. The employer covers the actually performed hours of the employee, i.e. EUR 1000, and the rest is covered by the Employment Service (up to 85%).

By observing the Austrian model of shorter working hours, we find that the implementation of the measure includes several key factors:

- For example, trainees receive 100 percent of their net salary, while the subsidy for others depends on the amount of their salary, and higher salary categories are excluded from the measure;
- Previous year's vacation and leave days are used, and the current year's leave is kept;
- Considering the labor law structure in place in Austria, a collective agreement must be concluded;
- The employer covers only the cost of actually performed working hours and a percentage of the remaining part;
- Working hours can be redistributed, e.g. working in alternate weeks;
- The measure is in force from 1 March;
- During the measure and for a month afterwards, no lay-offs are allowed;
- As in Croatia, the measure is implemented by the Employment Service.

Similar models – Slovenia

There is a model underway that would ensure the coverage of 80% of the salaries of employees "on hold", where half of that amount would be covered by the state.

3. Measures for Securing the Supply Chain

The proposal relates to the measures that should be implemented by the Croatian Government (the Ministry of Economy, Entrepreneurship and Crafts and the Ministry of Foreign and European Affairs) for the purpose of establishing a free flow of goods, intermediate products and critical raw materials necessary for manufacture by key strategic industries and exporters, as well as preventing a lack of raw materials, intermediate products, etc. for strategically significant enterprises.

Additional Economic Measures

1. Payment of VAT Per Charge Paid

The VAT Act provides for the calculation and payment of VAT per charge paid for supplies performed with regard to taxpayers who carried out supplies in the total amount of HRK 7,500,000 (excluding VAT) in the previous year. This means that their obligation to pay VAT to the state budget is only due when their supply charge is paid. Considering that all measures are currently aimed at economic liquidity, we suggest a temporary (limited-time) option of taxation according to charges paid for all taxpayers who carried out supplies in the amount of HRK 15,000,000 (the EU VAT Directive provides for this threshold amount) in the previous year, and who would opt to use the measure for the purpose of maintaining liquidity and jobs.

2. Adjustment of Tax Liability Due to Bad Debt

The Croatian tax legislation does not provide for VAT exemption in the case of bad debt, nor an option of a unilateral VAT adjustment without the written confirmation of the buyer on the performed adjustment of input tax in the VAT records. Many buyers are unwilling to make an adjustment and provide the necessary confirmation. The AmCham finds that the Croatian Tax Administration should enable a unilateral VAT adjustment for bad debts by reconciling the Croatian VAT legislation with the EU regulations.

This is particularly significant in extraordinary circumstances, such as the coronavirus epidemic, where recovery of claims is difficult or impossible, but the related VAT obligation is still due for payment (regardless of whether the payment is postponed/restructured in the form of instalments). The measure would be implemented until the end of 2020.

Statutory Compliance Measures

1. Postponement of time limits, i.e. the official interpretation/guidelines of competent authorities regarding the submission of annual reports, regulatory and tax forms as follows:

1.1 The submission of the Corporate Income Tax Return by 30 June (the current time limit is 30 April);

1.2 The submission of the yearly statistical report to the Croatian Financial Agency (FINA) by 30 June (the current time limit is 30 April);

1.3 The submission of revised financial statements (along with the independent audit report) for public disclosure by 30 June, for which the applied statutory time limit is 30 April;

1.4 The submission of revised regulatory forms to the Croatian Financial Services Supervisory Agency (HANFA), along with the independent audit report, by 30 June, for which the applied statutory time limit is 30 April;

1.5 The submission of the report on the performed audit to the Croatian National Bank (HNB) and the associated annexes, as well as revised regulatory forms, by 30 June, for which the applied statutory time limit is 31 March for systemically important banks and 30 April for other banks;

1.6 the submission of revised financial statements (along with the independent audit report) for public disclosure by 30 September, for which the applied statutory time limit is 30 June.

2. Postponement, i.e. an official interpretation/guidelines of the Croatian National Bank that the late submission of monthly receivables, payables and loans will not be penalized, that is, no fines, reminders or monitoring will be implemented due to the stated delay in submission for the period from 1 March to 30 June 2020.

Annex

Countries actively managing sufficient system liquidity in order to safeguard business continuity

Country Examples as of 23.03.2020



Co's have access to loans and guarantees from the state-owned KfW Bank; **guarantee framework of ~ 460 bn €³ (12% GDP)**



"**Anti crisis shield**" package of PLN 212 B (\$50 B or **9.2% of polish GDP**) to support entrepreneurs and employees with **5 pillars**: Employee safety, company financing, health protection, strengthening financial system, public investment



CZK 100 Bn (\$4.05 Bn) in **direct aids** for businesses and CZK 900 Bn (\$36.42 Bn) in **loan guarantees** for businesses (17% GDP)
Czech central bank considering allocating half of 2019 profit (CZK 30 Bn) to state budget to **purchase unsold goods**



The central bank has agreed to an **emergency rate cut**, increasing liquidity of banks to support corporates



\$2.2 Bn immediately available funds to compensate **small businesses** and **self-employed individuals** and \$2.2 Bn prospective funding for bridge loans for particularly affected industries, e.g., **airlines & tourism**



Cash guarantee from Bpifrance for smaller companies at risk of cashflow bottlenecks



Provision of a **guarantee of 80% to SME loans** delivered by the British Business Bank



SME credit guarantee scheme extended: Bank guarantees & bridge financing (€1.5 Bn)

Source: BCG analysis

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Short time working, salary subsidies, obligatory vacations as main measures to minimize layoffs

Country Examples as of 23.03.2020



Short-time working arrangements will be adjusted by the beginning of March²

Wage costs & social security contr. paid by Federal Employment Agency



Short-time working schemes for firms whose business is affected by Corona (e.g., supply shortages, demand cuts)

- Firm allowance of up to €7,23/h
- Wage subsidies of up to 84% of net salaries



Companies are allowed to **maintain employees' contracts with payments equal to two-thirds of salaries** largely funded by the state



Statutory sick pay (SSP) relief for SMEs, covering 2 weeks' SSP per employee; up to 2 weeks for firms w/ <250 employees



All employees are obliged to take 5 days of vacation or time off from work.
Government will compensate up to 75% of wages for private sector employees if companies refrain from lay-offs.



Introduction of short time work has been approved for all companies affected by COVID-19 (Work hours and salaries can be reduced by up to 90%)



Possibility of **partial unemployment scheme** in which employees receive 60% of earnings



Short time work due to force majeure will be extended to 3 months until June 30th.
1 week of work from the employee at least every 3 months to remain in short time work

Source: BCG analysis

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