

Germany Insight: COVID-19 Financial Aid and Short-Time Compensation

The COVID-19 crisis has a significant impact on the economy. Particularly small businesses, the self-employed, freelancers and farmers are affected and need urgent assistance, but also large businesses get impacted. The Federal Government has reacted quickly and created a comprehensive emergency aid package. In addition to emergency aid in the form of financial support for companies and the self-employed, the conditions for short-time working allowances have been simplified.

I. Financial Aid Package

On 27 March 2020, the German legislator passed a comprehensive package of laws on financial support for small and large businesses, self-employed and freelancers. The aid package consists, among other things, of the *Act on the Establishment of an Economic Stability Fund* (*Wirtschaftsstabilisierungsfondsgesetz* “**WStFG**”). WStFG grants emergency aid of up to 50 billion euros. To this end, an Economic Stability Fund was set up and the federal budget was amended accordingly. The respective federal states are responsible for the payment of emergency aid. The financial aid package statutes:

1. Companies and self-employed persons with up to 5 employees receive up to 9,000 euros.
2. Companies and self-employed persons with up to 10 employees receive up to 15,000 euros.
3. Self-employed people are given easier access to basic security, so that their livelihood and accommodation are secure.
4. Alternatively, small businesses, self-employed and freelancers can receive assistance loans from the *German Public Credit Institution for Reconstruction* (*Kreditanstalt für Wiederaufbau* “**KfW**”).

In addition, the Federal Government is establishing an economic stabilisation fund, which is aimed in particular at large companies and can provide large-volume aid. It supplements the liquidity assistance already decided on via the special programmes of the KfW. The fund contains:

1. 100 billion euros for capital measures.
1. EUR 400 billion for guarantees.
2. With up to 100 billion euros, the fund can refinance KfW programmes already adopted.

II. Short-Time Compensation

In order to provide additional financial relief to companies in the COVID-19 crisis, German legislators have simplified the conditions for receiving short-time work compensation. Companies that suffer a considerable loss of work and thus loss of earnings due to financial difficulties can apply for short-time work compensation under the *Social Code III* (*Sozialgesetzbuch “SGB III”*). Short-time work means that the employer no longer has sufficient work capacity available for all employees due to a financial imbalance. This would result in dismissals for operational reasons in order to keep the company afloat. The short-time working allowance is intended to counteract this problem. According to the SGB III the company can register so-called short-time working with the Federal Employment Agency, which means that the employees working hours are reduced and they receive a reduced wage. This reduced wage is paid by the employment agency. By reimbursing the short-time work allowance, employers receive temporary economic relief by reducing personnel costs.

On 13 March 2020 the conditions for receiving the short-time working allowance were eased by the *Act on the Temporary Improvement of the Regulations for Short-Time Work Compensation due to the Crisis*. Specifically, the *Act on the Temporary Improvement of the Regulations for Short-Time Work Benefits due to the Crisis* provided for subsequent changes until 31 December 2021:

1. Until now, at least one third of the employees employed in the company had to be affected by the loss of work. In future, this threshold may be lowered to up to 10 %.
2. The Federal Employment Agency pays 60 % (67 % for employees with children) of the lost net wage. For employees, short-time working will therefore lead to a salary cut of up to 40 percent.
3. The use of negative working time balances to avoid short-time working can be partially or completely waived.
4. The social security contributions for employees receiving short-time work compensation can be partially or fully reimbursed by the Federal Employment Agency. Previously, these contributions - both employee and employer contributions - had to be borne by the employer alone.
5. Contingent workers can now also receive short-time working benefits.
6. If companies want to introduce short-time working, they should start implementing it as soon as possible. In companies in which a works council exists, it must agree according to § 87 Sub. 1 No. 3 *Works Constitution Act* (*Betriebsverfassungsgesetz “BetrVG”*), if no collective bargaining agreements exist.

7. In companies without a works council, short-time work can only be introduced if there is a corresponding provision in the employment contracts or if the employees agree individually.

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