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Decree-Law n.34 of 19 May 2020

Urgent measures concerning healthcare, support for work and the economy, and social policies related to the epidemiological emergency by COVID-19.

(OJ N. 128 of 19-5-2020)

This is an overview of the main provisions of the Decree-Law s.c. 'Relaunch', an economic recovery package following Parliament's authorisation to increase the deficit by €55 billion in 2020.

It a very long piece of legislation (more than 250 articles), therefore we are not reporting all the measures. You will find the most important ones listed below, in this order:

- Aid to businesses
- Liquidity support to businesses: additional funds allocated to assist loans with the State's guarantee
- Income support schemes
- Tax cuts
- Financial support to Regions and local administrations – among others, to allow them to pay their commercial arrears
- Support to the banking sector
- One (minor) regulatory change regarding NPLs
- Sports
- Legalisation of undocumented workers and illegal migrants
- Additional funding for the NHS, particularly with a view to improving the capacity of ICUs.

Please note that the final version of the package, among many other things, allocates €1 billion to ensure Italy's participation in the pan-European guarantee fund of the EIB group and in the EU instrument for temporary support to mitigate unemployment risks in an emergency (SURE).

1. **Aid to businesses**

<u>Direct aid to enterprises with a turnaround within €5 million in 2019</u>

Businesses and self-employed workers with a recorded turnaround of no more than €5 million in 2019 will be entitled to receive a direct aid from the Government, if they experienced a drop in their turnaround in April 2020 by at least one third compared to April 2019.

The aid will amount to:

- 20% of the turnaround loss if the total turnaround in 2019 did not exceed €400,000
- 15% of the turnaround loss if the total turnaround in 2019 was comprised between €400,000 and €1 million
- 10% of the turnaround loss if the total turnaround in 2019 was over €1 million and within €5 million.

<u>Aid to businesses with a turnaround between €5 million and €50 million in 2019 undergoing a capital increase in 2020</u>

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Three different schemes will be introduced applying to these businesses:

1. If a business (excluding those in the financial sector) with a recorded turnaround between €5 million and €50 million in 2019, which has experienced a drop in their turnaround in April 2020 by at least on third compared to April 2019, undergoes a capital increase in the form of an issue of shares for cash within the end of 2020, the natural persons and the legal entities which invested in this business will benefit from a **tax credit** worth 20% of the payments up to €2 million
2. The same businesses, as soon as they approve their 2020 balance sheet, may benefit from a **tax credit** worth 50% of their losses exceeding 10% of its net assets.
   The total tax credit under scheme n.1 and n.2 combined cannot exceed 30% of the capital increase and cannot exceed €800,000 for each company anyway.
3. Also, **Cassa Depositi e Prestiti (CDP) through a dedicated fund will be entitled to underwrite (until 31 December 2020) bonds and other debt instruments** newly issued by businesses with a turnaround comprised between €10 million and €50 million in 2019, up to three times the amount of their capital increase and in any case up to 12.5% of the total turnaround of the company. This fund has an initial capacity of €4 billion.

Cassa Depositi e Prestiti to provide aid to businesses with a turnaround over €50 million

Cassa Depositi e Prestiti will be entitled to lend temporary support to businesses (excluding those in the financial sector) established in Italy, with a recorded turnaround of more than €50 million in 2019. To this purpose, CDP will be entitled to underwrite bonds convertible into equity, take part in capital increases, purchase shares on the secondary market in the context of operations which are deemed as strategic. CDP will preferably support high-tech businesses, or those managing critical infrastructures, or those that are part of strategic supply chains, or those that are relevant in terms of employment levels. CDP will, among others, be entitled to support troubled companies as long as they have adequate profitability prospects.
For the purpose of lending aid to businesses, the Treasury will confer to Cassa Depositi e Prestiti Treasury bonds up to a total value of €44 billion.

2. Liquidity support to businesses: additional funds allocated to assist loans with the State's guarantee

The Decree-Law passed in early April (n. 23 of 8 April 2020) empowered SACE (Italy's export credit agency, operating within Cassa Depositi e Prestiti) to assist with its guarantee loans of any kind, including mortgages, granted by banks and other financial intermediaries within 31 December 2020. The overall amount that can be assisted by SACE is 200 billion. In turn, any bond issue by SACE to cover its needs related to the guarantee scheme will be assisted by the State's guarantee. However, only €1 billion had been allocated to this purpose at that time.
Now, this economic recovery package allocated €30 billion in view of the possible expenses stemming from the guarantee scheme.

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Moreover, this package allocated €4 additional billion to the Guarantee Fund for SMEs, which is empowered to assist loans taken by SMEs from banks with the State's guarantee.
Again, the regulatory framework disciplining the guarantee scheme was laid down by the Decree-Law passed in early April (n. 23 of 8 April 2020).
Overall, the additional funding allocated to the Guarantee Fund for SMEs since the beginning of the Covid-19 emergency is approx. €7 billion

3. Income support schemes

Lay-off and other income support schemes

As previously reported, one of the issues emerged in April is that the applications for income support schemes, filed by companies that had been forced to close down or reduce their activities due to the covid-19 epidemic for their workers, largely exceeded the funds allocated by the Government in the mid-March recovery package (€5 billion).
With this recovery package, **the Government is now allocating an additional €16 billion funding** for income support schemes, whose scope is widened as follows:

- Business may apply to the National Social Security Agency (INPS) for "ordinary" support schemes (either the ordinary lay-off scheme, s.c. *CIG - Cassa Integrazione Guadagni ordinaria* or other solidarity payments for workers who are not covered by CIG), for a period of **maximum 14 weeks** between 23 February and 31 August 2020 (5 weeks more than previously foreseen); these income support schemes may be further extended by **4 more weeks (bringing the total duration to 18 weeks)** in the period between 1 September and 30 October 2020. Overall, the additional funds allocated for "ordinary" support schemes are approx. €11.5 billion.
- Also, extraordinary income support schemes (s.c. *CIG in deroga*) may be extended up to 14 weeks between 23 February and 31 August 2020, and by 4 more weeks in September-October. What is more important, **applications and payments starting from the 6th weeks will be managed directly by INPS**, instead of being processed by the relevant Region as normally happens. This will hopefully speed up the relevant procedures that have been very slow so far.
  Overall, the additional funds allocated for extraordinary income support schemes are approx. €4.5 billion.

Please note that individual redundancies of those workers under permanent employment contracts are suspended for 3 more months (i.e. from 17 May to 17 August): workers will not be fired, therefore their employers if they are struggling to keep their businesses going as usual will apply for CIG *en masse*.

Social security aid in the form of direct cash payments

The mid-March Decree provided for a **one-off direct cash payment of €600 to a wide array of workers**, including self-employed professionals, workers under atypical/non-permanent

employment contracts and workers in specific sectors (e.g. tourism) – basically those workers who are not hired under standard employment contracts and are not covered by the above-mentioned income support schemes.
This new recovery package stipulates that **workers in these categories will receive a €600 cash payment for the month of April as well.**

Also, workers in these categories are entitled to a €1,000 cash payment for the month of May, but only if they meet certain requirements (e.g. they have lost their job during the covid-19 epidemic if they are atypical/non-permanent workers, or they have experienced a drop in their income by at least one third in March-April 2020 compared to March-April 2019).
Overall, approx. €4 billion have been allocated for social security aid.

Finally, self-employed professionals who are not covered by any INPS-managed social security programme (because they are enrolled in private pension plans, managed by the pension funds run by the Association of their professional category) who were entitled to receive the **€600 "income of last resort"** in March, will be entitled to receive it for the months of April and May as well.
The additional funding for the income of last resort is approx. €1 billion

"Emergency Income"
Families with no sources of income may apply for an "emergency income", in the form of two monthly cash payments of €400 each, which may be increased up to a maximum of €800 each according to the number of dependent children.
The additional funding for the emergency income is approx. €950 million.

4. Tax cuts

As foreseen by the Multiannual Financial Framework, **the increase in VAT rates and excise duties already legislated for 2021 onwards will be suppressed**. Therefore, the ordinary VAT rate will stay at 22% and the reduced one for goods of mass consumption will stay at 10% going forward. Moreover, VAT on facial masks, other individual protection devices and other medical devices used to tackle the covid-19 epidemic such as ventilators will be temporarily brought down to zero (until the end of this year) and will then be set at 5%.

Businesses with an annual turnaround of no more than €250 million will be exempted from 2 installments of the regional Tax on Productive Activities (IRAP). The exemption will not apply to businesses in the financial sector. This temporary tax exemption will result in a reduction of revenues IRAP by approximately €4billion.

All tax payments, social security contributions, that had already been suspended in March, April and May will be postponed until 16 September 2020. This means that taxpayers will choose whether to pay their taxes altogether within 16 September or in 4 monthly instalments, the first one being due within 16 September.

5. **Financial support to Regions and local administrations**

€3.5 billion will be allocated to be distributed among local administrations, and €1.5 billion to be distributed among Regions, to compensate the loss they incurred in tax revenues due to the covid-19 epidemic and the lockdown. 30% of this sum will be distributed and paid to local administrations within 10 days of the entry into force of this package.

Also, **during 2020 local administrations will be allowed to suspend or renegotiate payments related to mortgages they have taken from banks, financial intermediaries and Cassa Depositi e Prestiti**. If they choose to do so, they will only pay interests during 2020, not capital.

Finally, the Treasury will be entitled, through Cassa Depositi e Prestiti, to provide Regions and local administrations with the liquidity they may need to pay their commercial arrears vs. non-NHS suppliers up to €8 billion, and to provide Regions with the liquidity they may need to pay their commercial arrears vs. NHS suppliers up to €4 billion. Regions and local administrations will be entitled to ask for this additional liquidity from 15 June 2020 to 7 July 2020. The loans taken by Regions and local administrations will be paid back to Cassa Depositi e Prestiti within 30 years starting in 2022, at an interest rate equaling that of 5-year Treasury bonds.

6. **Measures to support the banking sector**

In order to prevent any major distress in the banking sector, within 6 months of the entry into force of this package, the Treasury is authorized to:

- **assist liabilities of banks having their legal base in Italy with the State's guarantee**, up to a nominal value of €19 billion [upon the authorisation of the European Commission]
- **assist banks having their legal base in Italy with the State's guarantee as a complement to the collateral they pledge against credit provided by the Bank of Italy** under the ECB's emergency liquidity assistance scheme (ELA).

Also, whenever a bank (other than a cooperative bank) whose total assets do not exceed €5 billion is placed under receivership, the Treasury is authorized to support the purchase by another bank of any asset or liability or company branch of the bank placed under receivership, either through tax credits or through the State's guarantee, or through a direct financial support. Any form of support shall be authorized by the European Commission on a case-by-case basis.

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7. **A minor amendment concerning the Guarantee Scheme for senior tranches of NPLs asset-backed securities**

This is an **existing scheme under which the Italian Treasury may assist with its guarantee the senior tranches of securities issued by special purpose vehicles whose underlying assets are non-performing loans**, in order to facilitate the disposal of NPLs by Italian banks.

This scheme foresees that an external and independent servicer is appointed to service and manage the NPLs receivables. The payments due to the servicer are conditional upon the servicer's compliance with **performance targets**: whenever the servicer fails to meet the targets, up to 20% of the payments due to the servicer are postponed until the servicer is compliant once again.

<u>These rules have become unsustainable in practice, because of the suspension of all judicial proceedings during the lockdown, which has slowed down credit recovery procedures.</u>

Therefore, the amendment introduced by the economic recovery package entitles the Treasury to allow a **suspension of the rules on the postponement of payments due to the servicer for not complying with its performance targets**, provided that:

- The suspension is agreed between the parties
- The suspension refers to payments due earlier than 31 July 2021
- Any modification to existing rules does not negatively affect the rating assigned to the senior notes
- The servicer was unable to meet its performance targets due to the lockdown regime introduce to tackle the covid-19 epidemic.

8. **Sports**

The rents and other payments due by sports teams who are concessionaires of stadiums and other facilities owned by the State of local administrations (Municipalities, like in the case of the San Siro stadium) are suspended until 30 June 2020. All these payments will be due on 31 July 2020 (or in up to 4 monthly instalments, the first of which is due in July). <u>This is just an extension of a previous identical measure included in the mid-March recovery package</u>.

This time, however, it is complemented by other two measures:

1) **Sports teams may propose to the relevant public administration to renegotiate their concession contract**, including through an extension of the contract (provided that the existing one expires earlier than 31 July 2023), so as to gradually compensate the loss of revenues due to the lockdown and allow adequate remuneration for any investment. The final version of the Decree-Law also stipulates that whenever the concessionaire and the relevant public administration do not reach any agreement, either party can terminate the contract. In this case, the concessionaire is due a compensation equaling the value of the works already completed or, if any work has not been completed, the costs incurred by the concessionaire.

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2) **Moreover, sports teams are entitled to a reduction of the monthly rent/concession fees due from March 2020 to July 2020, in light of the effects of the lockdown, by 50%** unless the facility's owner proves that the concessionaire is entitled to a lower discount.

Finally, in view of the forthcoming deliberations to be adopted by national sports federations to either resume or end/annul competitions in the 2019/2020 season as well as to prepare for the 2020/2021 season, and assuming that this may give rise to a wave of appeals from teams, this Decree stipulates that **the relevant appeals will be judged by the Administrative Courts**, not by the sports justice system to prevent the latter from being overloaded, unless/until the national Olympic committee (CONI) and the sports federations put adequate procedures in place to process all the appeals within the sports justice system.

9. Legalisation of undocumented workers and illegal migrants

Those who employ undocumented workers in specific sectors (agricultural workers, domestic workers, care givers) will be allowed to apply for their legalization; employers will need to pay a €500 fee, plus they will need to pay the sums due to those workers and the State in the form of wages (if employers did not pay them according to the national collective contracts), social security contributions and taxes – however, the criteria according to which the sums due are calculated will be set out in an implementing act.

If these undocumented workers are (also) illegal migrants, they will be entitled to ask for a 6-month temporary permit, which may then be upgraded into a standard work permit as soon as they are hired under an employment contract.

10. Additional funding for the NHS, particularly with a view to improving the capacity of ICUs.

The additional €3.25 billion allocated to the NHS and the Civil Protection Department will be spent, among other things, to:

- **Improve the capacity of intensive care units, by permanently increasing the number of ICU beds from approximately 5,000 (as they were at the time of the outbreak) to approximately 8,400 (0.14 every 1,000 residents in every Region or autonomous province)**
- Improve the capacity of **semi-intensive care units, with 4,225 new semi-ICU beds**, 50% of which will be ready to be converted into ICU beds at short notice
- Make the equipment and the personnel available until 31 December 2020 for 300 more ICU beds, to be set up wherever needed
- Improve community health services, particularly by hiring up to 9,600 more nurses
- Develop separate pathways for covid-19 patients accessing the NHS (particularly emergency care departments) to keep them separated from other patients.

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