

COVID-19: The Russian government's measures to support the Russian economy

Since March 2020, the Russian authorities have taken a number of measures to mitigate the effect of COVID-19 on the Russian economy.

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The range of measures is very broad. Some measures are directed at wide categories of individuals or businesses, whereas others focus on narrower groups of persons (such as SMEs, systemically important companies, etc.)¹

Introduction

The Russian federal authorities announced a number of measures designed to mitigate the impact of the COVID-19 crisis for businesses and individuals.

The range of measures is very broad and includes, amongst others, the deferral of tax and lease payments, suspension of field tax audits, prolongation of various state licenses and permits, credit holidays and bank loans at reduced rates.

Some measures are directed at wide categories of individuals or businesses, whereas others focus on narrower groups of persons, such as:

- Small- and medium-sized enterprises (SMEs), in particular those operating in the economic sectors most affected by COVID-19 crisis (the “**most affected sectors**”);
- companies operating in the most affected sectors (the Government-approved list of most affected sectors includes air and auto transportation, culture and leisure, sports, tourism, hospitality, catering, non-food retail, education, etc.);² and
- systemically important companies operating in various sectors (as approved by the Governmental Commission on Sustainable Development of the Russian Economy) (“**systemically important companies**”).³

In addition to the measures taken at the federal level, regional governments have also introduced a number of measures (we will not consider them in this alert).

¹ This summary of measures was prepared by Irina Dmitrieva, Ekaterina Palagina, Julia Lymar, Roman Kudryavtsev.

² Government Resolution No. 434 dated 3 April 2020, as amended.

³ The criteria for inclusion in the lists of systemically important companies, approved on 10 April 2020, are available on the website of the Ministry of Economic Development [here](#).

We will focus on financial and fiscal (including tax) measures.

Financial aid and financing

Key instruments of financial support are bank loans at reduced interest rates for SMEs and other borrowers. The state partially compensates banks against losses in interest via subsidies. State aids are also available.

The Central Bank ("CBR") has introduced regulatory reliefs for credit institutions in order to incentivise loan restructurings. The CBR has also suggested a number of measures to support credit institutions' capacity to provide funding to the Russian economy. In addition, it has expanded its refinancing programs for SME loans.

The key financial measures are described further and in Annex I.

Bank loans for systemically important companies at reduced rates

Working capital bank loans can be provided to systemically important companies for up to 12 months and for no more than RUB 3 billion per each borrower. The interest rate may not exceed 5%. The state would cover the banks' loss of interest through subsidies. Borrowers can also apply for state guarantees to secure the repayment of the loan.⁴

In addition, the Government plans to support systemically important companies on an individual basis (e.g. for those in the transportation, manufacturing and energy sectors). The Minister of Economic Development announced that the state would provide individual support to systematically important companies, if needed, provided that no dividends are paid by those companies and that their owners and banks first exhaust their own ability to support the company.⁵

Interest-free bank loans to cover wage payments

This measure covers entrepreneurs and companies regardless of size operating in the most affected sectors. Banks are entitled to state subsidies to compensate for the loss of interest on such loans for a six-month period. The amount of the loan depends on the minimum statutory monthly wage and the number of the employees. In order to qualify, borrowers (other than small and micro-enterprises) are required not to make redundant more than 10% of their employees during this six-month period.⁶ VEB.RF, the national development institution, issues guarantees to banks to partially cover these loans.⁷

State aids to SMEs

State aids are to be paid to SMEs operating in the most affected sectors to cover costs of wages and other immediate needs in April and May 2020. To be eligible for a grant, the relevant SME must retain employment at the level of not lesser than 90% of the level of March 2020. The amount of the aid is based on the minimum statutory monthly wage and the number of employees in March 2020.^{8, 9}

Credit holidays for individuals and SMEs

Borrowers being individuals and SMEs operating in the most affected sectors may, until 30 September 2020, request that lenders suspend payments under mortgages and other loans for up to six months. Entrepreneurs may, instead of a deferral, seek a reduction in the amount of loan payments during the grace period. Penalties

⁴ Government Resolution No. 582, dated 24 April 2020.

⁵ We note that there is no limitation for systemically important companies to be owned by foreign shareholders.

⁶ There is no such requirement for small and micro-enterprises for the purpose of these interest-free loans (as opposed to grants, as mentioned below).

⁷ Government Resolution No. 422 dated 2 April 2020, as amended.

⁸ Government Resolution No. 576 dated 24 April 2020.

⁹ For the purpose of this measure and other measures that apply to SMEs we note the following. SMEs are included in the register of SMEs. SMEs are either entrepreneurs or companies whose SME status is generally dependent on headcount (up to 250 employees) and annual income (up to RUB 2 billion).

As a rule, foreign companies cannot own more than 49% of an SME. There are few exceptions to this restriction. For example, it does not apply when those foreign companies could qualify as SMEs themselves as per the headcount and annual income criteria mentioned above (this exception does not apply to foreign companies with a permanent residence in offshore zones, as per the list approved by the Ministry of Finance).

will not accrue during credit holidays. In order to be eligible for a credit holiday, individuals must have suffered a decrease of more than 30% in their income as compared to their average monthly income in 2019. The Government has limited the principal amount of a single retail or mortgage loan that falls within the scope of this measure.¹⁰

"Mortgage holidays" for individuals that were envisaged by the law before the COVID-19 are still available.

Subsidies to banks to support grace periods to SMEs

The state provides subsidies to the banks that granted SMEs operating in the most affected sectors a grace period for up to six months (in relation to loans granted before 1 April 2020). The amount of subsidies is limited to one third of the interest payments due from an SME-borrower during the grace period. The borrower is to pay one third of interest payments due for the grace period and is released from payment of the remaining two thirds.¹¹

Loans to SMEs

The scheme existed before the COVID-19 (so it is not a new measure, as opposed to those described above), but it has been amended to make access to those loans easier for SMEs in the current situation (the requirements to borrowers have been softened). Interest rates not to exceed 8.5%.

Bank loans to support construction sector

The state will subsidise interest rates under mortgage loans so that the banks could provide them at reduced rates.¹² In addition, subsidised loans for developers are planned.

Programs against unemployment

Terminations are possible on general grounds under Russian law, but these do not specifically relate to the COVID-19 pandemic. However, the employment authorities are to come up with the suggestions aimed at preventing unauthorized employment terminations due to the COVID-19 pandemic and will put employers under additional scrutiny in this connection. Employers are required to promptly upload information about terminations due to liquidation, redundancy and other employment-related information into all-Russia employment vacancies database.

At the same time, the maximum amount of the unemployment allowance in 2020 has been increased to match the federal minimum wage amount (RUB 12,130). For those who have been terminated starting from 1 March 2020 (except for termination for cause) the unemployment allowance in April-June 2020 shall be established at the above maximum amount with one of the parent of a child under 18 receiving an additional payment of RUB 3,000. The regional may make additional payments to increase the unemployment allowance.

Measures to limit bankruptcies

The Government has introduced a moratorium on the filing of insolvency claims from 6 April through 6 October 2020 in relation to entrepreneurs and companies operating in the most affected sectors, systemically important companies and strategic enterprises. The debtor's obligation to file an insolvency petition in certain statutory cases is suspended during the moratorium period.¹³ For more details please see Annex I.

Measures affecting corporates in general

A number of statutory changes were made that affect all companies. They relate to ways and dates for holding shareholders' meetings, preparing and disclosing financial statements, etc.¹⁴ For more details please see Annex I.

¹⁰ Federal Law No. 106-FZ dated 3 April 2020.

¹¹ Government Resolution No. 410 dated 2 April 2020, as amended.

¹² Government Resolution No. 566, dated 23 April 2020.

¹³ Article 9.1 of the Insolvency Law; Government Resolution No. 428 dated 3 April 2020.

¹⁴ Federal Law No. 50-FZ dated 18 March 2020, Federal Law No. 115-FZ dated 7 April 2020.

Tax measures

Tax measures aimed at support of business

A number of tax measures were recently introduced for SMEs, including certain exemptions and reductions (see Annex I for more details).

Also, there are some other measures related to corporate profits tax which may be utilized by any taxpayers (irrespective of whether they have the SME status), in particular:

- deductibility of costs incurred in implementing certain sanitation measures and purchasing medical devices related to COVID-19;¹⁵
- the base for calculation of monthly advance tax payment may be changed at any time during the year 2020 (under general rules – such change is possible only as of January) from (a) taxable profits as at the end of a previous quarter, to (b) taxable profits as at the end of the relevant current tax reporting period.¹⁶

Apart from that, with regard to almost all taxes (excluding VAT) for certain categories of taxpayers, specific deferrals have been granted for tax reporting and payments (e.g., certain SMEs¹⁷ taxes and social contributions for 2019 and first quarter 2020 are deferred for up to six months and for second quarter 2020 are deferred for up to four months).

In addition, property taxes for first and second quarters 2020 are deferred until 30 October 2020 and 30 December 2020 respectively.

Larger businesses operating in the most affected sectors are also eligible to tax payment deferrals for up to 12 months (or in some instances up to five years) which may be granted on application (if certain criteria are met).¹⁸

Regional governments have also introduced additional deferrals. For example, in Moscow, certain businesses are granted deferrals of advance payments in respect of property and land tax for first and second quarters 2020 and trade duty for first quarter until 31 December 2020.¹⁹

The initiation and conduct of field tax audits have been suspended until 31 May 2020.²⁰

Tax measures aimed at creating additional tax revenue

The President has instructed the Government to determine the list of double tax treaties to be amended by introducing a 15% withholding tax on dividends and interest, and to ensure that these treaties are amended or terminated.²¹ The Government is required to report on the implementation of this direction by 25 December 2020. The Ministry of Finance has already approached the Ministries of Finance of Cyprus, Luxembourg and Malta with proposals with respect to Russia's double tax treaties with these countries (amending the "Dividends" and "Interest" articles, by setting a 15% withholding tax rate). At the same time, the Ministry of Finance notes that these changes will not affect interest income on Eurobonds-connected loans, Russian companies' bonds and loans obtained from foreign banks.²²

¹⁵ Article 1 of Federal Law No. 121-FZ dated 22 April 2020.

¹⁶ Article 1 of Federal Law No. 121-FZ dated 22 April 2020.

¹⁷ Section 1 of Government Resolution No. 409 dated 2 April 2020. At the end of the mentioned deferrals, 1/12 part of the corresponding debt is to be paid on a monthly basis (see also Government Resolution No. 570 dated 24 April 2020).

¹⁸ Government Resolution No. 409 dated 2 April 2020.

¹⁹ Sections 1-2 of Moscow Government Resolution No. 212-PP dated 24 March 2020.

²⁰ Section 4 of Government Resolution No. 409 dated 2 April 2020.

²¹ President's address to the Russian nation dated 25 March 2020; President's directions to the Government dated 28 March 2020.

²² See the official website of the Ministry of Finance: https://www.minfin.ru/ru/press-center/?id_4=37027-minfin_rossii_napravil_pisma_ob_izmenenii_soglashenii_ob_izbezhanii_dvojnogo_nalogooblozheniya_s_lyuksembur_gom_i_maltoi.

Conclusions

The Russian state authorities are continuously considering new measures to adapt to the rapidly changing situation, so more details may follow once the relevant laws and regulations are adopted.

We encourage our clients to consider the opportunities presented by the different measures and to consult us if any assistance is needed.

In addition, White & Case has carried out an analysis of global governmental responses to the COVID-19 crisis. These vary considerably from country to country and are being updated and amended regularly.

We have prepared an in-depth and nuanced analysis for various major jurisdictions and pulled together a global response team.

For useful information on COVID-19, please consult the Coronavirus section of www.whitecase.com.

Annex I

The most important measures have been described and summarized below.

| Applicable Measures | Large Corporates | SMEs |
|---|--|--|
| Eligible Beneficiary | Companies registered in Russia (regardless of the size) or certain types of companies, as further specified in relation to each measure | SMEs registered in Russia and included in the register SMEs, as further specified in relation to each measure |
| Working capital bank loans | <p>Beneficiaries – systemically important companies</p> <p>Key terms of, and requirements to, the subsidised loan are as follows:</p> <ul style="list-style-type: none"> • The loan is for up to 12 months for up to RUB 3 billion per borrower; the interest rate may not exceed 5% • The loan is for working capital purposes as further specified by the Government Resolution; loan proceeds cannot be placed on deposits and in other financial instruments • No commission fees are to be charged from the borrower • The borrower is not in reorganization, liquidation or insolvency process and its operation has not been suspended. • Borrowers can apply for state guarantees to secure the loan repayment. <p>To be eligible for subsidies Russian banks are to meet a number of the requirements. In particular, the eligible bank cannot be more than 50% owned by foreign companies registered in offshore zones.</p> <p>Process: no specific procedure is prescribed to borrowers for getting those loans, the procedure is specified for getting subsidies.</p> | The key addressees of this measure would be large systemically important companies. However, in a limited number of cases it may not be excluded that an SME may be considered as an eligible systemically important company (as an SME can meet the criteria for those companies in certain sectors). |
| Interest free bank loans to cover wage payments | <p>Beneficiaries: entrepreneurs and companies regardless of size operating in most affected sectors</p> <p>Key terms of, and requirements to, the subsidised loan are as follows:</p> | |

| Applicable Measures | Large Corporates | SMEs |
|---------------------|--|--|
| | <ul style="list-style-type: none"> • The loan agreement is signed during the period from 30 March to 1 October 2020; the loan is for up to 12 months • The interest rate: zero for six months and, for the remaining period, a reduced rate (it may not exceed the interest rate at which the bank obtains refinancing from the CBR) • The subsidies cover a six-month period • The maximum amount of the loan: the minimum statutory monthly wage (including additional regional statutory payments and mandatory social contributions) X the number of employees X the six-month period covered by subsidies • The borrower (other than a small or micro-enterprise) shall retain the employment of at least 90% of its employees • The borrower is not in insolvency process and its operation has not been suspended • No commission fees are to be charged from the borrower • The volume of loans granted to borrowers, which are small and micro-enterprises, is to be no less than 40% of the overall volume of loans granted by the bank as per this scheme in 2020 <p>The loans are partially covered by guarantees of VEB.RF.</p> <p>To be eligible for subsidies Russian banks are to meet a number of the requirements. In particular, the eligible bank cannot be more than 50% owned by foreign companies registered in offshore zones.</p> <p>Process: no specific procedure is prescribed to borrowers for getting those loans, the procedure is specified for getting subsidies.</p> | |
| State aid | Not available for large corporates | <p>Beneficiaries: SMEs operating in most affected sectors</p> <p>Key features and requirements to the SME:</p> <ul style="list-style-type: none"> • Grants are intended to cover costs of wages and other immediate needs in April and May 2020 • The SME must not reduce employment by more than 10% below the level of March 2020 • The grant amount is based on the minimum statutory monthly wage and the number of employees in March 2020 • The SME is not in liquidation or insolvency process • The SME has no tax and mandatory social contributions arrears exceeding RUB 3000 as of 1 March 2020 |

| Applicable Measures | Large Corporates | SMEs |
|------------------------------------|---|---|
| | | <p>Process: the recipient of the grant is to file an application with the Federal Tax Service (the application can be filed online).</p> |
| Credit holidays | <p>Not available for large corporates as part of this statutory measure (introduced by Federal Law No. 106-FZ). However, the CBR has introduced regulatory reliefs for credit institutions in order to incentivise loan restructurings, including for corporate borrowers (irrespective of their size).</p> | <p>Beneficiaries: individuals (who suffered a decrease of more than 30% in their income) and SMEs operating in most affected sectors</p> <p>Borrowers may, until 30 September 2020, request that lenders suspend any payments under mortgages and other loans for a period specified by the borrower (grace period). The grace period can be for up to six months. Entrepreneurs may, instead of a deferral, seek a reduction in the amount of payments during the grace period.</p> <p>Key effects of the grace period:</p> <ul style="list-style-type: none"> • Penalties do not accrue • The acceleration of debt is not allowed • The pledged (mortgaged) property cannot be foreclosed • No lender's recourse to guarantors is allowed • Further lender's disbursements to the borrower are suspended <p>The principal amount of retail and mortgage loans of individuals that fall within the scope of this measure is limited.</p> <p>The rules for payments after the grace period expires differ for individuals and SME-borrowers. In particular, SME's payments are to be made in the amounts and within the terms that are similar to those which applied before the grace period and the loan repayment date is to be extended respectively.</p> <p>Process: banks are required to consider the borrower's application and respond within five days. If there is no response within 10 days, the grace period is deemed to be provided.</p> |
| Subsidies to support grace periods | <p>Not available for large corporates (as borrowers) as part of this measure</p> | <p>Beneficiaries: the measure is aimed at banks granting deferral on payments to SMEs operating in most affected sectors (therefore, SMEs can be considered as the ultimate beneficiaries of this measure)</p> |

| Applicable Measures | Large Corporates | SMEs |
|---|---|--|
| | | <p>Key terms of, and requirements to, the subsidised loan are as follows:</p> <ul style="list-style-type: none"> • Loans granted before 1 April 2020 • The deferral on payment of principal is provided for up to six months (the grace period to end no later than 31 December 2020) • The interest payments due for the grace period: 1/3 is due from the borrower, 1/3 – covered by state subsidies, 1/3 – covered by the bank • The 1/3 due from the borrower can be paid in different ways (e.g. during the grace period or after that) • The borrower is not in insolvency process and its operation has not been suspended <p>To be eligible for subsidies Russian banks are to meet a number of the requirements. In particular, the eligible bank cannot be more than 50% owned by foreign companies registered in offshore zones.</p> |
| Bank loans to support construction sector | <p>Financing measures for individuals and developers:</p> <p>Mortgage loans provided from 17 April 2020 to 1 November 2020 at reduced interest rates (6.5%): the state will provide subsidies to cover bank's loss in interest. The principal amount of subsidised loans is limited.</p> <p>Plans: subsidised interest rates for loans to developers.</p> | |
| SME loans | Not available for large corporates | <p>The scheme existed for SMEs before (so it is not a new measure, as opposed to those described above), but it has been amended to make access to those loans easier for SMEs (the requirements to borrowers have been softened). Interest rates not to exceed 8.5%.</p> |
| Measures to limit bankruptcies | <p>The Government has introduced a moratorium on the filing of insolvency claims from 6 April through 6 October 2020 in relation to:</p> <p>companies and entrepreneurs operating in most affected sectors</p> <p>systemically important companies</p> <p>strategic enterprises</p> <p>The moratorium has the following effects, amongst others:</p> <p>pledged property of the debtor cannot be foreclosed (including out of court);</p> | |

| Applicable Measures | Large Corporates | SMEs |
|-------------------------------|--|------|
| | <p>the set-offs are restricted;</p> <p>the payment of dividends, as well as the buyback of shares and the payment for participatory interest in connection with the participant's exit are prohibited;</p> <p>ongoing enforcement proceedings are stayed; and</p> <p>no financial sanctions for breach of monetary obligations accrue.</p> <p>The protected debtor's obligation to file an insolvency petition is suspended.</p> <p>For more details please see our alert at https://www.whitecase.com/publications/alert/covid-19-insolvency-filing-moratorium-russia</p> <p>The protected debtor can waive the benefit of the moratorium (by way of a public announcement registered with the Unified Federal Register of Information Regarding Insolvency). We plan to issue a client alert on this topic.</p> | |
| Corporate issues | <p>For joint stock companies (JSCs) and limited liability companies (LLCs), as applicable:</p> <ul style="list-style-type: none"> • the statutory rules specifying consequences of a company's net assets being below its charter capital are suspended (i.e. 2020 financial results will not be taken into account); • the deadlines for presentation and disclosure of consolidated financial statements are extended; • the deadlines for holding annual general meetings in JSCs and LLCs are extended; • any general shareholders' meetings (i.e. irrespective of the issues on the agenda) can be held by way of absentee voting; • public JSCs can carry out a buyback of their shares on a stock exchange in a simplified manner. <p>For more details please see our alert at https://www.whitecase.com/publications/alert/changes-regulation-buyback-shares-and-certain-corporate-matters-russian</p> | |
| Measures against unemployment | <p>Prevention of unauthorized termination</p> <p>The Government has instructed the Ministry of Labour to prepare their suggestions aimed at preventing the unauthorised termination of employment for reasons directly or indirectly connected with measures taken due to the COVID-19 pandemic. In addition, the Chairman of the Government, Mr. Mishustin, announced that the employment authorities will monitor employers to prevent unlawful termination for reasons related to COVID-19.</p> <hr/> <p>All-Russia Vacancies Database "Work in Russia"</p> <p>From 12 April through 31 December 2020 all employers must input information about termination of employment due to liquidation or redundancy, as well as other required employment-related information into digital all-Russia vacancies database "Work in Russia" not later than one business day from the occurrence of the above grounds.</p> <hr/> <p>Unemployment benefits</p> | |

| Applicable Measures | Large Corporates | SMEs |
|---------------------|---|--|
| | <p>The maximum amount of the unemployment allowance in 2020 has been increased to match the federal minimum wage amount (RUB 12, 130). For those who have been terminated starting from 1 March 2020 (except for termination for cause) the unemployment allowance in April-June 2020 shall be established at the above maximum amount with one of the parent of a child under 18 receiving an additional payment of RUB 3,000. The regional may make additional payments to increase the unemployment allowance.</p> | |
| Tax measures | <p>Not available for large corporates</p> <p>However, larger businesses operating in the most affected sectors are also eligible to tax payment deferrals for up to 12 months (or in some instances up to five years) which may be granted on application (if certain criteria are met).</p> <p>In addition, in Moscow, certain businesses are granted deferrals of advance payments in respect of property and land tax for first and second quarters 2020 and trade duty for first quarter until 31 December 2020.</p> | <p>SMEs are eligible to benefit from the following measures:</p> <ul style="list-style-type: none"> • exemption from income taxes on the state aid received from the federal budget (only for the most affected sectors); • reduction of tariffs of mandatory social contributions, in aggregate, to 15% (but only to the extent the employee's salary exceeds the minimum monthly wage); and • various automatic (without any applications) deferrals of payment of taxes and social contributions (only for the most affected sectors). |
| | <p>Some of the introduced tax measures are available to any taxpayers (i.e., for both SMEs and larger businesses), in particular the following (for corporate profits tax purposes):</p> <ul style="list-style-type: none"> • deductibility of costs incurred in implementing certain sanitation measures and purchasing medical devices related to COVID-19; and • the base for calculation of monthly advance tax payment may be changed at any time during the year 2020 (under general rules – such change is possible only as of January) from (a) taxable profits as at the end of a previous quarter, to (b) taxable profits as at the end of the relevant current tax reporting period. | |

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