

## Moratorium on credit, loans and financial leases

9<sup>th</sup> April 2020

The Chamber of Deputies passed a law concerning a moratorium on credits and loans, which is heading to the Senate for approval. The moratorium provides for the deferral of repayments of credit, loans and liabilities from similar financial services, such as a financial lease with compulsory purchase of the leased object at the end of the lease term (“loans”), if the borrower so requests.

The scope of the deferral is broad, and should generally apply to all creditors who have granted credit to a consumer or an entrepreneur (individual or legal entity) before 26 March 2020. The deferral should not apply particularly to liabilities that are overdue for more than 30 days, investment instruments (e.g. bonds), credit card liabilities or operating leases.

The debtor shall declare its intention to use the loan repayment deferral for a protective period that runs from the first day of the calendar month following the notification until 31 October 2020 (or until 31 July 2020, if the debtor so requests).

The repayment period of the creditor’s cash debts from the debtor is extended by the length of the protective period. During the protective period, the credit can charge interest at no more than the repo rate plus 8 p.p. (i.e., currently 9%) if the debtor is a consumer, and at the agreed rate, if the debtor is an entrepreneur. This interest shall not bear interest. For individuals, the maturity of this interest is postponed until the end of the loan repayment period; for legal entities, the interest is payable at the time agreed. For debtors, individuals (regardless of whether they have used the protective period or not), no arrears penalty will be imposed in the period until 31 October 2020.

The tax consequences for both creditors and debtors will depend on the accounting treatment of individual items under IFRS (for banks) and Czech Accounting Standards (for other taxpayers who keep their accounting books under the accounting decree for entrepreneurs). Typical accounting and tax issues that may arise for both creditors and debtors are as follows:

- ▶ accounting and tax assessment of accruing of revenues (for creditors) and expenses (for debtors),
- ▶ assessment of (accounting) depreciation plans for leased items of leasing companies keeping accounting books under the accounting decree for entrepreneurs,
- ▶ impact on the thin capitalization calculation of debtors in the case of related-party loans,
- ▶ tax impact of (potentially) increased provisioning after the expiry of the creditors’ protective period,
- ▶ for financial leases, e.g. the (additional) application of output VAT by leasing companies or the determination of the value added tax base for leases considered as operating leases for the purposes of the VAT Act (but considered a financial lease from the perspective of the law governing deferred repayment).

We would be happy to discuss in detail the accounting and tax aspects of deferred repayment.



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