

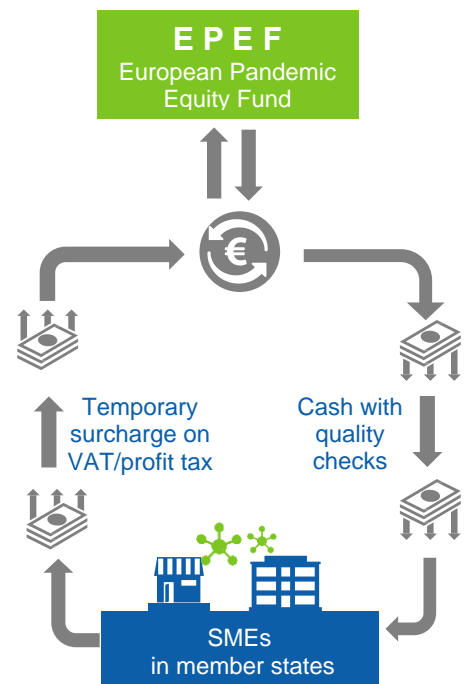
## Factsheet: European Pandemic Equity Fund (EPEF) A cash for tax-surcharge scheme

### How does the scheme work?

- **Intuition:** The cash for tax-surcharge scheme trades an initial cash transfer against a temporary (tax) surcharge on future profits, thus replicating the payment pattern of equity.
- **Design:** Cash transfers are paid to firms through a European Pandemic Equity Fund (EPEF). In return, the Fund receives surcharges on firms' future profits, analogous to a profit tax. Surcharges represent the EPEF's financial return.
- **Eligibility:** The capital is channeled to firms with healthy business prospects, relying on the expertise of local banks and public agencies.
- **Duration:** Enterprises can terminate its annual payments of surcharges by buying-out the EPEF.
- **Firms:** The scheme targets small and medium-sized enterprises (SMEs) with no or limited capital market access.
- **Industries:** Implemented at the pan-European level

### What are the advantages?

- It provides an **equity-like** payment structure accessible by small and medium-sized enterprises
- It **limits future debt overhang** of firms and reduces default risks for banks
- **Risk sharing** across firms and EU countries, without impinging on ownership structures
- **Reward sharing:** Sharing the benefits of Europe's economic recovery post-crisis
- **De-emphasizing the doom loop** between banks and governments by reducing strengthening banks' equity
- Fostering **financial stability** and the resilience of the European Union



### Pandemic policy team

The pandemic policy team around the Leibniz Institute for Financial Research SAFE includes financial economists from around the world: Arnoud Boot (University of Amsterdam), Elena Carletti (Bocconi University), Hans-Helmut Kotz (Harvard Center for European Studies and SAFE), Jan Pieter Krahen (SAFE), Loriana Pelizzon (SAFE and Goethe University Frankfurt), and Marti Subrahmanyam (New York University Stern Business School and SAFE).

Further readings and videos on the topic:

[Policy Letter No. 78](#) The coronavirus and financial stability

[Policy Letter No. 79](#) Corona and financial stability 2.0: Act jointly now, but also think about tomorrow

[Policy Letter No. 81](#) Corona and financial stability 3.0: Try equity – risk sharing for companies

[Policy Letter No. 84](#) Corona and financial stability 4.0: Implementing a European Pandemic Equity Fund

[SAFE-CEPR Policy Webinar](#) Corona and risk sharing: A European Equity Fund