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S.J. Grand Financial and Tax Advisory

COVID-19 Policy Briefings – China 2020

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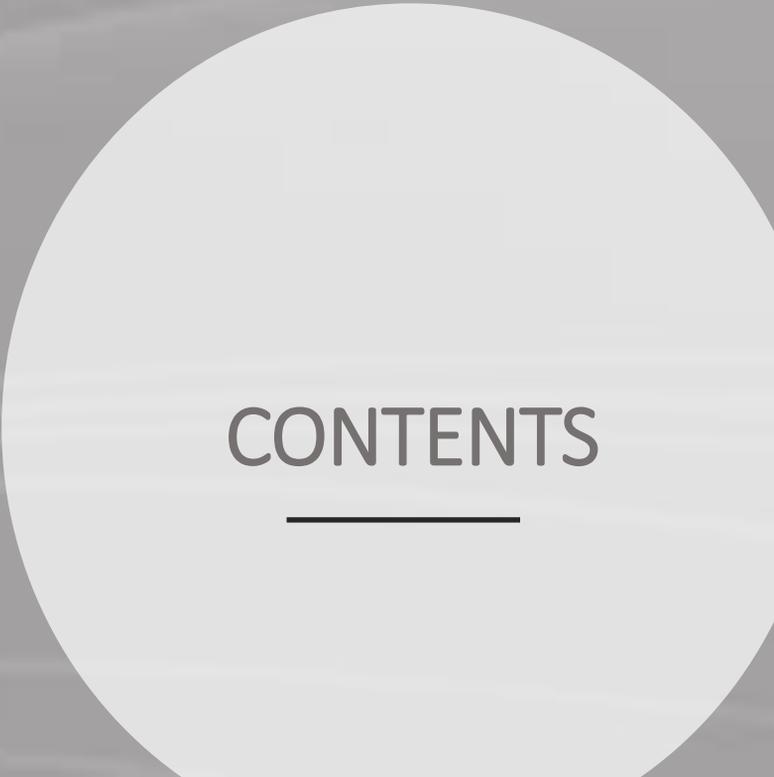


INTRODUCTION

The Chinese government has released several policy measures to support business individuals and enterprises affected by the COVID-19 outbreak in China from early January to February 2020.

Various fiscal, tax and labor policies have been rolled out to guarantee the production and operations of different companies including foreign-invested enterprises. Furthermore, the government also relaxed policies concerning social security and loan payments.

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- TAX POLICY
 - SOCIAL SECURITY
 - LABOR REGULATION
 - FISCAL SUPPORT
 - OTHER POLICIES



CONTENTS

VAT and Corporate Income Tax Exemption

Announcement No. 8, 2020

Ministry of Finance and State Taxation Administration

- *One-off deduction before corporate income tax (CIT) for newly purchased equipment intended for expanding production capacity.*
- *Enterprises producing key materials can get a full refund of tax credits for the incremental VAT.*
- *The maximum carry over period of losses incurred by enterprises in difficult industries greatly affected by the epidemic in 2020 is extended from 5 years to 8 years.*
- *Taxpayers providing the following services will be exempt from paying VAT for their income.*
 - ✓ Transportation of essential materials
 - ✓ Public transport services
 - ✓ Life services
 - ✓ Express deliveries for necessities

Tax Exemption on Donated Goods

Announcement No. 9, 2020

Ministry of Finance and State Taxation Administration

- Enterprises and individuals who provide cash or in-kind donations for epidemic prevention and control can get deductions from their corporate income taxes.
- Self-employed businesses that donate self-produced, commissioned or purchased good can be exempted from the following tax or charges:
 - ✓ VAT
 - ✓ Urban maintenance and construction tax
 - ✓ Education surcharge
 - ✓ Local education surcharge
- Imported goods for donation purposes are exempted from import duties, VAT and consumption tax.

VAT Reduction for Small-scale Taxpayers

Announcement No.13, 2020

Ministry of Finance and State Taxation Administration

- Small-scale taxpayers in Hubei province are **exempted** from paying 3% VAT on sales income.
- Other small-scale taxpayers outside Hubei province can enjoy a reduced rate of **1%** VAT on sales income.
- The VAT exemption and reduction rate is extended from May 2020 to December 2020.

Increased Tax Rebates for Export Enterprises

Announcement No.15, 2020

Ministry of Finance and State Taxation Administration

- The export tax rebate rate of a total of 1,464 products will be increased to varying degrees to alleviate the capital pressure of foreign trade export enterprises to the maximum extent.

9% increased rate

380 products including livestock products (fresh and frozen meat) and other agricultural products such as eggs, vegetables, fruits, tea, coffee, oil, resin and spices.

13% increased rate

1,084 products including porcelain sanitary wares, stainless steel strip and wire. It also includes chemicals such as ethylene, propylene and ethylene glycol. Other household tools, appliances and supplies are also included.

Urban Land Use Tax (ULUT) Reduction

Announcement No.16, 2020

Ministry of Finance and State Taxation Administration

- *Logistics enterprises can enjoy from extended tax incentives including a 50% reduction on ULUT for bulk commodity storage facilities.*

Suspension of Tariff on U.S. Goods

Announcement No.1, 4, 2020

Custom Tariff Commission

- *Suspension of additional tariff on imported U.S. goods.*
- *Refund of levied additional tariffs.*
- *Tariff adjustment rates for certain U.S. goods since February 14, 2020.*

IIT Withholding Taxes for Enterprises

Announcement 5, 2020

Ministry of Finance and State Taxation Administration

- *IIT shall be withheld at 0.5% for self-employed industrial and commercial households, sole proprietorship and partnership enterprises outside Hubei province. This applies when issuing VAT invoices for freight transportation services.*
- *No IIT shall be withheld for taxpayers in Hubei province.*
- *Tax declaration for withholding is extended from March to May 31, 2020.*

Rental Reduction for Small and Micro Enterprises

Announcement No.734, 2020

Development and Reform Investment Regulation

- *Small and micro enterprises renting state-owned houses are exempted from paying rental cost for 3 months.*
- *Those that lease non-state-owned houses shall get reduction or postponement of the collection of rent upon negotiation between two parties.*
- *State-owned banking institutions shall increase loans exclusively used for paying house rent and provide preferential interest rates to small and micro enterprises.*
- *Those lessor who provided reduction or exemption shall be provided with preferential interest rate on their loans, as necessary. This will be based on the housing rental income of the lessor within the tax year.*
- *For lessors who reduced and exempted small and micro enterprises from house rent but are having difficulty due to the pandemic, banking institutions shall negotiate with them for delay of repayment or loan renewal.*

Deduction and Exemption of Social Insurance

Announcement No.10, 2020

Ministry of Human Resources and Social Security

- *Enterprises are exempted from paying social insurance premiums including pension, unemployment and work-related injury.*

All enterprises in Hubei and all SMEs can enjoy **100%** exemption; large enterprises can deduct **50%**.

All enterprises in Hubei and all SMEs can defer payment from February to June 2020.

Other enterprises can defer payment from February to April 2020.

- *Medical insurance including maternity for employees can be reduced by **50%**, depending on the sufficiency of the government public funds during a six-month deferred payment.*

Deferred Payment on Housing Provident Fund

Announcement No. 23, 2020

Ministry of Human Resources and Social Security

- *Enterprises can apply for deferred payment of provident fund.*

The enterprise can apply for a delayed payment of housing provident fund before June 30, 2020 according to the regulations. During the deferment period, the time of deposit shall be calculated continuously, which will not affect the normal withdrawal and application of housing provident fund loans by employees.

- *If the employee is unable to repay, he / she will not be overdue.*

If the employee fails to repay the housing provident loan before June 30, 2020, the overdue treatment shall not be made. For the employees who are under great pressure to pay the rent, they can reasonably increase the amount of house rental withdrawal and flexibly arrange the withdrawal time.

- *The enterprise can negotiate with the employees whether to pay the accumulated housing provident fund.*

Under the premise of full consultation with employees, the enterprise can voluntarily pay the housing fund before June 30, 2020. In case of continued deposit, the proportion of deposit shall be determined independently; in case of suspension of payment, the time of deposit shall be calculated continuously during the period of suspension of payment, which will not affect the normal withdrawal of housing accumulation fund and application for housing accumulation fund loan.

Wage Payment and Termination of Contract

Announcement No. 5, 2020

Ministry of Human Resources and Social Security

- *Employers are not allowed to terminate contract of employees.*

Employers should **NOT** terminate employment contracts or force normal labor if the employee is unable to return to work due to the epidemic situation. According to Article 87 of the Contract Law of The People's Republic of China, if the employer terminates a contract illegally, it can risk paying twice the rate of the severance pay as stipulated in Article 47 of the same law.

- *Employers should pay full wages during the epidemic period.*

Employees who provide labor during the epidemic period are entitled to a full wage payment of not lower than the local minimum wage standard. If an employee is unable to provide normal labor, the employer must pay the basic expenses according to the local living standard.

- *Employers with fewer laid-off workers during the epidemic can apply for **refund** of unemployment insurance paid in the previous year.*

Deferred Payment on Loans of SMEs

Announcement No. 6, 2020

Ministry of Finance

- *SMEs can defer payment of principal loan and loan interest until June 30, 2020. The payment of loan interest shall be free of penalty during the extended period.*
- *Banking financial institutions shall provide special credit sale for Hubei province.*
- *Preferential internal fund transfer pricing shall be implemented and the deadline for submitting related party disclosure forms attached to the annual return is extended.*

Preferential Interest Rates for Key Enterprises

Announcement No. 3, 2020

Ministry of Finance

- *The People's Bank of China shall provide 50% discount on interest rate for a one-year period.*
- *Small enterprises and individuals who lost their sources of income due to the epidemic shall be given priority over entrepreneurial guarantee loans.*
- *Financial institutions are encouraged to provide credit support, optimize financial services and **cancel the anti-guarantee** requirement for SMEs.*

Expansion and Increase in Loan Subsidies

Announcement No. 21, 2020

Ministry of Finance

- *The coverage of loan grants is expanded to five key groups including:*
 - ✓ Industries that lost their sources of income
 - ✓ Individuals with car loans intended for rental operations
 - ✓ Full-time drivers with loans intended for ride-hailing and taxi industry
 - ✓ Qualified taxi drivers
 - ✓ Individual entrepreneurs who have paid off their loans on time but are having business difficulties
- *The allowable loan amount for qualified individual borrowers is increased from RMB 150,000 to RMB 200,000. Individuals with entrepreneurial partnerships can apply for increased amount of not more than 10 percent of the allowable loan amount.*
- *The government shall cover payment of a portion of the interest rate for entrepreneurship guarantee loan.*

Special Re-loan Policy for Listed Enterprises

Announcement No. 5, 2020

Ministry of Finance

- *The Central Bank shall issue special re-loans to listed enterprises. The one-year loan prime rate (LPR) is lowered by a total of 100 basis points.*
- *The listed enterprises eligible for special re-loan policy include enterprises that produce key materials and equipment for epidemic prevention and control as well as transportation and sales of such materials.*

OTHER POLICIES

- *Extension of tax filing deadline from February to March 23, 2020 and declaration period for withholding tax collection to May 30, 2020.*
- *Reduction or exemption of rental fees of SMEs.*
- *VAT refund on research and development industry until December 31, 2020. R&D expenditure subsidies for SMEs.*
- *Suspension of administrative fees, optimization of financial services, and simplification of approval procedures for loans.*
- *Two-month automatic extension of visa/residence permit for those with February expiration. Online application of work permit extension application.*
- *Establishment of an emergency response mechanism or “green channel” to facilitate foreign exchange-related settlements*
- *Optimization of electronic application for export and import licenses*



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