



## China offers tax and financial incentives over coronavirus (China)

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The outbreak of coronavirus COVID-19 (as named by the World Health Organization) has disrupted normal business operations in China. Many enterprises are facing pressure in business, human resources, cash flow and contract liabilities. To cushion the impacts to businesses and economy, the Chinese authorities including the State Administration of Taxation (SAT), the Ministry of Finance (MOF) and the Customs Tariff Commission (CTC) of the State Council have rolled out a series of emergency policies to support enterprises and individuals. In this update, we summarize and highlight the tax and fiscal measures for the broad categories of corporate income tax (CIT), value-added tax (VAT), customs and individual income tax (IIT) relevant to companies and groups operating in China.

### CIT

- Equipment expenditure incurred to increase production capacity by companies engaged in the production of key supplies for epidemic prevention and control is entitled to full CIT deduction in a single year (SAT Announcement [2020] No.8).
- For losses incurred in year 2020 by companies in the industries significantly impacted (including transportation, catering, accommodation and tourism) during the epidemic period, the carried forward years can be extended from five to eight years if 50% of the company's total revenue is from principal activities in the industry (SAT Announcement [2020] No.8).
- Donation (whether cash or supplies) made by companies through charity organizations or governments, or directly to

hospitals responsible for epidemic control is entitled to full CIT deduction (SAT Announcement [2020] No.9).

- February 2020 statutory tax filing deadline is extended to February 24, 2020, and further extended to February 28, 2020. This can be further extended by local tax authorities where the outbreak is identified as serious (such as in Hubei province). Affected taxpayers and withholding agents can apply for further extension (SAT Announcement [2020] No.19 and SAT Announcement [2020] No.27).

## VAT

- Companies engaged in the production of key supplies for epidemic prevention and control can apply for full refund of incremental retained VAT on a monthly basis (SAT Announcement [2020] No.8).
- Income derived from the following activities are exempted from VAT:
  - transporting key supplies for epidemic prevention and control is exempted from VAT (SAT Announcement [2020] No.8); and
  - providing public transportation services, life services and express delivery services to deliver daily necessities to residents (SAT Announcement [2020] No.8).
- Donation of supplies made by companies through charity organizations or governments, or directly to hospitals responsible for epidemic control, whether self-manufactured, contractually manufactured or externally procured is exempted from VAT and surcharges (SAT Announcement [2020] No.9).

## Customs

- Customs tariff increment is reduced from 10% to 5% for products originally manufactured in the US in section 1 and 2 of the attachment of CTC Announcement [2019] No.4, and from 5% to 2.5% for products originally manufactured in the US in section 3 and 4 of the attachment of CTC Announcement [2019] No.4 (CTC Announcement [2020] No.1).
- Importation of supplies for the purpose of prevention or control of coronavirus COVID-19 is exempted from customs duties, import VAT and consumption tax between January 1, 2020, to March 31, 2020. Tax refunds can be obtained for qualified supplies for which taxes have already been paid (MOF Announcement [2020] No.6).
- Importation of supplies for the purpose of prevention or control of coronavirus COVID-19 is exempted from customs duties including supplies originally manufactured in the US. Tax refunds can be obtained for previously imposed increased tariff due to the China-US trade war (CTC Announcement [2020] No.6).

## IIT

- Donation (whether cash or supplies) made by individuals through charity organizations or governments, or directly to hospitals responsible for epidemic control is entitled to full IIT deduction (SAT Announcement [2020] No.9).
- Allowances and bonuses obtained by individuals participating in the epidemic control and prevention, and medicines and medical supplies given out to individuals for the purpose of prevention of coronavirus COVID-19 are exempted from IIT (SAT Announcement [2020] No.10).

## Other Support

- The People's Bank of China, MOF, China Banking Insurance and Regulatory Commission, China Securities Regulatory Commission, and State Administration of Foreign Exchange jointly set out 30 financial measures to support the prevention and control of the coronavirus COVID-19 outbreak, covering credit and financial support, security of financial infrastructure, foreign exchange, and cross-border RMB business (YinFa [2020] No.29).
- The State Council executive meeting announced temporary exemption/reduction of employer contribution to social security insurance and public housing fund during the epidemic period:
  - Mid- and micro-companies outside Hubei province can be exempted from these employer contributions in pension, unemployment and work injury insurance between February to June 2020.
  - Large companies' employer contribution to pension, unemployment and work injury insurance can be reduced to half between February to April 2020 outside Hubei province.
  - Companies in Hubei province can be exempted from all five kinds of social security insurance between February to June 2020.
  - All companies in China can apply for delayed contribution to public housing fund till the end of June 2020, and employees who cannot repay their housing loan on public housing fund are not regarded as late payment or subject

to late payment penalties.

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While the length of the epidemic period is still uncertain, companies operating in China may want to immediately assess the above tax policy and treatments, and:

- identify the policies that may be leveraged by your company/group;
- proactively manage the on-going operation of your company in view of meeting the qualification and required pre-conditions for enjoying the policies;
- proactively communicate with your landlords to see if it is possible to apply for rental reduction or exemption during the epidemic control period;
- proactively communicate with banks/creditors to see if it is possible to extend your repayment timeline or securing a lower interest rate;
- review ongoing contracts to see if any potential legal risks in relation to performance during the epidemic and, apply for force majeure certificate if necessary;
- ensure safekeeping of relevant legal documents and supporting;
- keep abreast of the deadline for tax filing; and
- adjust cash flow forecast and consider impact on existing transactions (including inter-company transactions).

It should be noted that these tax and fiscal measures are aiming to support resident companies and individuals in China. While these policy measures are unlikely to be enough to completely offset the impact of the virus, they will help to strengthen the activity recovery or cushion the magnitude of slowdown. Subject to the industries that your company operates in and the specific business situation of your company, there could be particular tax, legal and procedural questions regarding the implementation of these policies. Also, there could be more credit support to the private sector and small businesses from the SAT and local tax authorities. We will keep you updated on future progress; and please let us know if we can help.

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