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Chinese Government's measures to support businesses during the COVID-19 Outbreak in China

During the outbreak of COVID-19, the Chinese authorities have jointly released a series of measures to support enterprises and industries and reduce the negative economical impact of the epidemic.

1. Corporate Income Tax (CIT)

On 6 February 2020, the Ministry of Finance and the State of Taxation Administration (STA), announced that the costs of new machineries newly purchased by manufacturing enterprises producing key protection materials for the epidemic prevention and control can be fully deducted from payable CIT in the relevant fiscal period.

The list of eligible manufacturing enterprises shall be determined by the provincial government, the National Development and Reform Commission (NDRC) or the Ministry of Industry and Information Technology.

The longest carry-over period of losses incurred in 2020 by businesses in industries affected by the epidemic, is extended from 5 to 8 years. Eligible enterprises may apply for the extension to the Electronic Tax Bureau. As criteria of eligibility, the revenue from operations of main business of enterprises affected by the epidemic in 2020 must account for more than 50% of the total income, not including no-taxable incomes and investment incomes.

Donations (whether in cash or in kind) made by companies to no-profit organizations or local governments at county level or above or made directly to hospitals responsible for epidemic control, can be fully deducted from payable CIT. Donations of sanitary materials directly to hospitals engaged in epidemic prevention and control may also be deducted from payable CIT. Receipts issued by hospitals are required to enjoy the tax deduction

2. Value Added Tax (VAT)

Enterprises engaged in the manufacturing of key protection materials for epidemic prevention and control (e.g. hospital equipment) can apply to the tax authorities, on a monthly basis, for a full refund of the "incremental uncredited input VAT". The "incremental uncredited input VAT" refers to the uncredited input VAT balance exceeding the balance as at 31 December 2019.

Income obtained from transportation of key supplies indispensable for prevention and control of the COVID-19 outbreak is VAT exempted. Income obtained by taxpayers from the provision of public transportation services and daily life services and from the provision of express delivery services for daily necessities of residents (e.g. food or other basic needs) will also be VAT exempted.

Taxpayers encountering difficulties due to the severe impact of the epidemic in meeting the deadline for the filing of VAT returns, Individual Income Tax return and Social Contributions return, may apply to the tax authorities for extensions.

On 25 February 2020 Premier Li Keqiang announced during the executive meeting of the State Council that payment of VAT for Small-Scale Taxpayers (*i.e.* taxpayers whose annual turnover is lower than RMB

5 million) and Individual Businesses in Hubei province will be waived from 1 March to the end of May 2020, while other provinces are expected to see a reduction of the VAT from 3% to 1%.

To apply for VAT exemption, eligible taxpayers shall fill in the column “*Breakdown for Application for Value-added Tax Deduction and Exemption*” in the relevant VAT filing form and shall not issue special VAT invoices (*i.e.* invoices issued for any taxable good and service in China). Taxpayers whose income is eligible for VAT exemptions, shall also be exempted from the payment of Urban Maintenance and Construction Tax, Education Surcharge and Local Education Surcharge.

Additional measures providing tax reductions (namely Real Estate Tax and the Urban Land Use Tax) and funds to support Micro, Small and Medium Enterprises (SMEs) are to be implemented on a local basis.

3. Individual Income Tax (IIT)

According to Announcement No. 10 of Ministry of Finance and STA, temporary work allowances and bonuses granted to medical personnel and workers engaged in prevention activities are exempted from IIT.

Donations (whether in cash or in kind) made by individuals through no-profit organizations or local governments at county level or above, or made directly to hospitals responsible for epidemic control, may be fully deducted from the donor’s payable IIT.

Personnel that failed to handle the registration for social insurance payment and other mandatory registrations within the prescribed time, are permitted to carry out such registrations after the end of the epidemic outbreak. If the relevant registration procedures and payments are completed within 3 months after the overcome of the epidemic, the relevant bureaus shall not demand and collect for the late payment fee.

On 30 January 2020, the Ministry of Human Resources and Social Security announced that the 2020 adjustment of employee social insurance contribution bases will be postponed from 1 April to 1 July 2020. During April, May and June of each calendar year employers are required to pay social insurance contributions based on the previous year’s figures. In addition, the Ministry announced the extension of the existing policy granting employers who do not lay off employees a 50% refund of the unemployment insurance contributions.

The tax policies favourable regimes applicable to CIT, VAT and IIT shall apply retrospectively from 1 January 2020. The relevant deadlines will be announced separately depending on the evolvement of the epidemic situation.

4. Financial Support Measures

On 25 February 2020 the executive meeting of the State Council announced that eligible SMEs facing temporary liquidity difficulties are permitted to carry forward their interest payments on bank loans until 30 June 2020. Penalties on late interest payments shall be waived. All types of businesses in Hubei Province can enjoy such policy.

The State Council pledged also to increase credit support to SMEs by relending and rediscounting existing loans. The relending interest rate targeting rural areas, agriculture, farmers and smaller businesses will fall by 0.25% reaching 2.5%. Banks will increase the special credit quota for loans to be issued to SMEs of 350 billion RMB at preferential rates.

People's Bank of China, the Chinese central bank, has provided relending funds amounting to 300 billion RMB (about US\$42,98 billion) to national and local banks, which will then grant credit support at favourable interest rates to key manufacturers of medical supplies and daily necessities products.

5. Local Policies

There are a number of incentive policies issued by local governments in terms of rental reductions and exemptions, financial credits, refunds of unemployment insurance contributions, foreign exchange payments, loans and subsidies. Some examples are:

- in Beijing, SMEs can apply for up to three months of delayed tax payments if they are in financial difficulties;
- in Shanghai, SMEs that are tenants of state-owned properties whose production and operations are severely affected by the epidemic, are exempted from paying rent fees for February and March 2020. On the other hand, commercial property owners can apply for further reductions of Property Tax or Land Use Tax.

Please do not hesitate to contact us should you wish to obtain additional information on local policies.

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Gianni, Origoni, Grippo, Cappelli & Partners has set up an in-house **Task Force** to constantly monitor the evolution of legislation in the regions affected by the Coronavirus and is at your entire disposal to support you in defining, drafting and implementing the most advisable strategies to limit the impact of the spread of the Coronavirus on the operations of your business and the management of your existing commercial relations. For our previous newsletters on this subject, please click [here](#).

For any questions, please send a mail to coronavirus@gop.it.

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