



## How can Enterprises survive after novel corona virus infection in China?

The novel corona virus (2019-nCoV) infection was broken out in central China, Hubei province before Chinese lunar new year holiday. In the past Chinese people would constantly be taking travels during the lunar new year holiday. However, this time in order stopping the virus spreading further, Chinese government implemented a series of immediate measures to restrict people from travelling and introducing strict quarantines. Those administrative measures appear a really effective method before a specific medicine or treatment is officially announced. Nevertheless, it did cause a lot of unexpected postponing resumption of work. Chinese government postponed the first working from January 31 to February 3 at national level and Shanghai government did the same for a further postponement for one week. Now, some employees have already started to work remotely and are keeping daily communications with each other on-line. It is really a challenge time not only for tens of thousands of patients and doctors in infected cities but a severe consequence all Chinese enterprises should be facing or must recover after this epidemic period. It appears pessimistic to 2020's Chinese economy.

Business continuance is always the main measures to reconstruct Chinese economy. In addition to 14-day quarantine rules for protecting each traveler and people close to him, a series of preferential policies and treatments have been issued at national and provincial levels during the past three weeks with the aim to alleviate Chinese enterprises' burdens. Those measures include the areas of Chinese taxes, Chinese social security obligations, practical guidance on how to deal with HR issues arising from the 2019-nCoV infection, immigration, rental reduction and financing supports.

Hereby we would like to start our brief introduction about these rulings and treatments from Chinese tax perspectives.

### Part I- Preferential treatments on Chinese taxes

#### 1. Chinese Corporate Income Tax ("CIT")

- (1) The equipment newly purchased by enterprises for producing goods and commodities for epidemic prevention and control can be booked as one-off cost for a pre-deduction of CIT.
- (2) 2019-nCoV caused a lot of enterprises ceased operations during the epidemic prevention and control period. For enterprises with hard-hit sectors, they may extend the carry-forward period of annual losses incurred in year 2020 from a maximum of 5 years to 8 years. Those hard-hit sectors include four industries namely transportation, catering, accommodation, tourism (mainly refer to travel agents and scenic spot management) industries which would be defined in accordance with industry classification of national economy. Nevertheless, the main business revenue for year 2020 should account for more than 50% of its total revenue (excluding tax-free income and income from an investment).
- (3) For charitable donations via cash and prevention and control supplies made through public interest social organizations or People's government bodies at or above county level ("***Indirect Donation***"), their values in full can be accounted as deductible rather than subject



to a limitation for CIT calculation purpose; For ***Direct Donations*** in the form of prevention and control supplies made to hospitals taking in-charge of epidemic prevention responsibilities, their values can be deductible in full (in normal cases, the amount of Indirect Donations is subject to 12% of accounting profit and the amount of direct donations are not allowed to be deducted). The donation certificate is a pre-requisite document that needs to obtain after donation for certification purpose.

## 2. Chinese Value-Added Tax ("VAT")

- (1) For enterprises producing goods and commodities for epidemic prevention and control, their incremental excess input VAT could be refunded in full from January 1, 2020. The incremental excess input VAT refers to the increased input VAT amount compared with the one by the end of year 2019.
- (2) The revenue derived from transporting goods and commodities for epidemic prevention and control is exempt from VAT charges and local levies such as city construction tax, education fees and local education fees.
- (3) Taxpayers providing public transportation, lifestyle services and courier services for living materials and necessities, their revenues are exempt from VAT charges and local levies.
- (4) In respect of "Indirect Donation" and "Direct Donation" in the form of goods and commodities by manufacturing by its own, commissioned processing and purchasing as stipulated in the above, these enterprises are exempt from VAT charges and local levies.

The above preferential tax treatment would be effective from January 1, 2020 and expire until a further notice once the situation becomes better. It deserved our attention that input VAT amount in relation to tax-free income would be transferred out and added back to output VAT amount.

## 3. Chinese Individual Income Tax ("IIT")

- (1) Medical workers and disease control professionals who have participated in the epidemic prevention and control shall be exempted from individual income tax on the subsidies and bonuses they receive according to the standards prescribed by the government, as well as on medicines and protective devices they receive from their employers.
- (2) Like the Direct and Indirect Donations made by enterprises for epidemic prevention and control, individual taxpayers could make 100% deduction from their taxable income of comprehensive income, business operating income, lease of property, transfer of property, interests, dividends and accidental income (in normal cases, the deductible amount of Indirect Donations is no more than 30% of total taxable income and the amount of Direct Donations is not deductible).

## 4. China Imported Taxes

The scope of duty-free imports specified in the Interim Measures for the Exemption of Import Duties on Charitable Donations will be appropriately expanded, and imported materials donated for epidemic prevention and control will be exempted from import duties and import value-added tax and consumption tax. The expanded scopes include reagents, disinfectants, protective articles, ambulances, epidemic prevention vehicles, disinfection



vehicles and emergency command vehicles. The tax-free treatment is valid from January 1 to March 31, 2020.

## **Part II – Preferential treatments on Chinese social security obligations**

The Ministry of Human Resources and Social Security of China (“MHRSS”) reacted very quickly to issue series of HR related circulars on January 24, 2020 towards 2019-nCoV infection. Following this, MHRSS sector in each city sets out its detailed rulings to guide its enterprises locally.

In Beijing and Shanghai, the timing of social security contribution for the first two months has been postponed to the end of March 2020 with no late payment surcharges while social security welfares are entitled as usual; In Beijing, certain Small and Medium-sized Enterprises (“SMEs”) are eligible for applying for one-off social security subsidies for the period from February to April 2020 up to the maximum of RMB6,315 per person and unemployment subsidies amounting to RMB8,000 per person per year without lay-offs or reduced employees; Those enterprises applying for the said subsidies are also entitled for a vocational training subsidy amounting to RMB1,000 per person as long as cumulative training hours are no less than 40 per person during year 2020.

It is predicted that the unemployment subsidies amounting to RMB2.6 billion will be returned back to 140,000 enterprises located in Shanghai. The normal timing of social security base adjustment has been postponed from April 1, 2020 to July 1, 2020 which will bring a social security reduction of RMB10.1 billion in total for both enterprises and their employees. All kinds of enterprises in Shanghai affected by the epidemic, and they also organize employees (including dispatched workers) to participate in various online vocational training during the operation suspension period are entitled to training subsidies of up to 95% of the actual training cost. This also applies to platform enterprises (e-commerce companies) and new forms of businesses.

## **Part III – HR and employment issues**

Chinese government emphasized implementing a flexible employment during epidemic prevention and control period. Employees are encouraged to work on a home-work base thorough telephone and internet or go back to office on a rotation basis. If some of them have difficulties to resume work, the paid annual leave arrangement is one of solutions. In the situation that normal cooperation is interrupted by epidemic heavily, salary adjustment or no pay leave arrangement is the way of securing jobs of employees rather than lay-offs. Specific approaches should be determined by companies through consultation with their employees.

Enterprises meeting requirements to resume work shall provide necessary measures for epidemic prevention and labor protection. Protective supplies and devices shall be provided and detailed guidance rules should be sent to employees in advance. In worse case, employees fail to return in a timely manner due to improper reasons, enterprises shall



formulate a reasonable layoff plan and perform relevant procedures in accordance with the Chinese labor law.

#### **Part IV - Immigration and global mobilities**

Some foreign expatriates keep themselves well protected out of China rather than coming back on schedule physically, while they are still focusing on their China duties remotely. The bureau of foreign experts affairs in a lot of cities implemented “online” submission for new application, extension and de-registration of Chinese work permit. Paper filings of original documents to the counter for further examination is currently suspended. In case the work permit and Z visa are expired before foreign expatriates come back to China, they can apply for other visas for coming back and needn't to apply for Z visa again.

#### **Part V – Rental reductions for enterprises**

SMEs renting non-residential properties from Shanghai-based state-owned enterprises (including all kinds of development zones and industrial parks, start-up bases and high-tech incubators, etc.) to engage in production and commercial activities will have their rentals for February and March waived off. Large-scale commercial buildings, shopping malls, industrial parks and other market operators are encouraged to reduce rental for tenants physically operating in the buildings. Enterprises that have taken the initiative to reduce rental for their tenants and have difficulty in paying property tax and urban land use tax may apply for exemption or reduction of corresponding taxes or request financial subsidies from local government.

#### **Part VI – Financing supports to enterprises**

The Bank of Shanghai, the Pudong development bank and other financial institutions are encouraged to strengthen financing supports to key enterprises producing epidemic prevention materials, severely affected enterprises and SMEs. The loan interest rate shall be reduced by at least 25 base point of Loan Prime Rate (“LPR”). Other measures such as opening up a green channel for application, using big data financing application platform and adjusting performance review mechanism to strongly support financing to SMEs.

According to a recent survey made by a well-known real estate agent, only 10% of respondents gave a feedback that 2019-nCoV would result in foreign enterprises moving some jobs out of China, another 35% of respondents thought that it would be too early to make an judgement and the remaining 55% firmly responded no jobs would be moved out of China. China is a more mature market than seventeen years ago when SARs broke out. Most of us is expecting China business and operation would start to be resilient in the early time of 2<sup>nd</sup> quarter, pent-up demand would drawback economic recession in the 3<sup>rd</sup> quarter and there should be a full recovery by the year-end. Especially, the Chinese government has also taken all of the effective measures to support businesses to navigate through these difficult times. Every Chinese firmly believes that China could win the battle with the virus!



Being a tax professional, we are pleased to provide the following tax services and assistances to help enterprises in navigating through the challenging times:

1. Express newest tax policies and preferential treatments and our insights on timely basis
2. Assist in identifying and assessing potential tax risks
3. Assist in applying for preferential tax treatments, financial subsidies and postponement of social security contributions
4. Assist in making annual corporate income tax adjustments and completing annual corporate income tax filings
5. Assist in completing monthly and annual individual income tax filings
6. Assist in migrating your foreign expatriates legally coming to China during and after 2019-nCoV infection
7. Provide HR consulting related to HR and employment issues arising from 2019-nCoV infection
8. On-line training services and other tax consulting services

If you have any queries on the above, please feel free to contact:

Mrs. Eva Tian  
Tax Partner  
+86 186 2181 0863  
[tianwenyan@crtax.com](mailto:tianwenyan@crtax.com)