

## Preferential Tax Policies Responding to the Coronavirus Pandemic

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Guo Yongmao and Zhang Tianyang of Haiwen & Partners highlight tax policies to support manufacturers and service providers that have assisted with the prevention and control of the COVID-19 pandemic, as well as those who have been affected by it

The spread of the novel coronavirus 2019 (COVID-19) has adversely affected people's lives and economic development. In order to support the prevention and control of COVID-19 and the operation and development of the economy, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly issued the Announcement on Tax Policies to Support the Prevention and Control of the Novel Coronavirus Pneumonia Epidemic (关于支持新型冠状病毒感染的肺炎疫情防控有关税收政策的公告) (the MOF and SAT Announcement [2020] No.8, ( "Circular No.8" ).

Circular No.8 provides preferential policies on enterprise income tax (EIT) and value-added tax (VAT) for different types of taxpayers. The preferential tax policies came into force on Jan. 1, 2020. The expiry date of these tax policies will be announced separately depending on the status of the COVID-19 pandemic. The policies are summarized into three categories as follows:

For taxpayers who manufacture or transport 'key supplies for epidemic prevention and control' (or KSEPC, including important medical and essential supplies):

KSEPC manufacturers, are allowed to deduct the entire amount of expenditures of newly purchased equipment for expanding production capacity on a one-off basis in the current period for EIT filing purposes, without restricting the total amount of expenditures to be deducted.

This policy provides an exception to the current rule (applying to the period between Jan. 1, 2018 and Dec. 31, 2020) under which the entire amount of expenditures of newly purchased equipment may be deducted pre-EIT on a one-off basis only if the unit value of the equipment does not exceed Rmb5 million. This policy encourages the expansion and upgrade of KSEPC production capacity by saving the cash flow of KSEPC manufacturers' EIT payment in the current period.

KSEPC manufacturers may apply for the full-amount refund of incremental overpaid VAT on a monthly basis, without being required to meet the criteria of tax credit rating, input VAT composition ratio and etc. to enjoy such treatment. The incremental overpaid VAT refers to the newly increased input VAT balance amount since the end of December 2019, which accumulated after it was used to set off against the output VAT amount. This is because, in a specific period, the total amount of accumulated input VAT exceeds the amount of output VAT; therefore, the input VAT has a remaining amount after being off-set by the output VAT.

This policy provides an exception to the current rule on the refund of incremental overpaid VAT under which a series of requirements need to be met (such as a taxpayer's tax credit rating, input VAT composition ratio and other criteria). This policy helps mitigate the cash flow burden of relevant companies.

KSEPC transporters are exempted from VAT for their KSEPC transportation service income. Furthermore, according to another tax circular that was issued later (Circular [2020] No. 4 of SAT), if VAT is exempted, local surcharges (including the city construction and maintenance tax, the education surcharge and local education surcharge) are also exempted for KSEPC transporters.

For enterprises in industries materially and adversely affected by the COVID-19 pandemic (i.e. transportation, catering, accommodation and tourism industries), the carry-forward period for losses incurred in 2020 is extended from the general five years to eight years. To be qualified as an enterprise for the eight-year tax loss carry-forward, the main operating income of such enterprise shall account for more than 50% of its total income (excluding non-taxable income and investment income) in 2020.

This policy provides for a longer period for related enterprises to utilize their 2020 tax loss in future if they survive the COVID-19 pandemic.

For taxpayers providing public transportation services, essential services, as well as courier and delivery services for providing necessities to residents, their income derived from such services are exempted from VAT. Also, according to Circular [2020] No. 4 of SAT, if VAT is exempted, local surcharges are exempted for such taxpayers as well.

This policy encourages relevant industries to better serve people' s daily life and help resumption of normal work and business.

Except for Circular No. 8, the MOF, the SAT, the General Administration of Customs (GAC) and the State Council Tariff Commission (SCTC) recently published a series of other preferential policies on taxes, administrative charges and social security to further support the prevention and control of COVID-19 pandemic. The relevant tax policies are summarized below:

| Document No.                                                                                                                  | Related Taxes and Covered Period                                                                                                                        |
|-------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------|
| Circular [2020] No. 6 of MOF, GAC and SAT and Circular [2020] No. 6 of SCTC                                                   | Taxes related to importation, from January 1 to March 31, 2020                                                                                          |
| Circular [2020] No. 9 of MOF and SAT                                                                                          | Donation-related EIT, individual income tax (IIT), VAT, consumption tax (CT) and local surcharges, applying to the period same as that of Circular No.8 |
| Circular [2020] No. 10 of MOF and SAT                                                                                         | IIT, applying to the period same as that of Circular No.8                                                                                               |
| Circular [2020] No. 13 of MOF and SAT                                                                                         | VAT exemption/reduction for small-scale VAT taxpayers, from March 1 to May 31, 2020                                                                     |
| Circular [2020] No. 4 of SAT                                                                                                  | EIT, VAT, CT and local surcharges, mainly on procedural matters, applying to the period same as that of Circular No.8                                   |
| Circular [2020] No. 5 of SAT                                                                                                  | VAT and IIT, mainly on procedural matters related to Circular [2020] No. 13 of MOF and SAT                                                              |
| Circulars <i>Shui Zong Han</i> [2020] No. 19, No. 27, No. 28, No. 37 and No. 43, and Circulars [2020] No. 17 and No.18 of GAC | Tax administration and collection procedural matters, covering the period of prevention and control of COVID-19 pandemic                                |

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<2> This policy encourages relevant industries to better serve people' s daily life and help resumption of normal work and business.

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