

More China tax reliefs amid pandemic fallout

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In brief

- » More tax reliefs are granted to small and low-profit enterprises.
- » More VAT refunds are offered to more businesses.
- » Extra VAT deduction is granted to help enterprises tide over difficulties.
- » A longer six-month deferral of tax and fee payments is offered to micro, small and medium-sized enterprises in the manufacturing sector.

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In detail

To boost the work and production momentum, China's Ministry of Finance (MoF) and State Administration of Taxation (SAT) have offered further tax reliefs to pandemic-hit businesses amid staggered lockdowns, predominantly to small-scale and low-profit enterprises. Their details are summarised below.

1. VAT and CIT reliefs

Taxes		Before	Now
a.	Business threshold subject to VAT	RMB 100,000	Raised to RMB 150,000
b.	Small business taxed for VAT at 3%	Reduced to 1%	VAT exempted
c.	Scope of "six taxes and two surcharges"	Small-scale taxpayers	Expanded to cover small-scale taxpayers, small and low-profit enterprises and sole proprietors
d.	Preferential corporate income tax (CIT)	For income under CNY 1 million	25% of income is taxable 20% CIT rate applies
		For income from RMB 1 to 3 million	25% of income is taxable 20% CIT rate applies
		Reduced to 12.5% of income	20% CIT rate applies
		Reduced to 25% of income	20% CIT rate applies
<i>Note: (a) and (d) apply to "small-scale taxpayers"; (d) applies to "small and low-profit taxpayers".</i>			

- Per SAT Announcement [2021] No.11, the business threshold subject to VAT for small-scale taxpayers is upstretched from RMB 100,000 to RMB 150,000 per month, effective from 1 April 2021 to 31 December 2022;
- Per SAT Announcement [2022] No.15, all small-scale taxpayers taxed at the 3% rate are exempt from VAT, effective from 1 April 2022 to 31 December 2022. Their VAT pre-filing practice is also suspended;
- Per SAT Announcement [2022] No.10, effective from 1 January 2022 to 31 December 2024, "six taxes and two surcharges" are levied only on 50% of the income – which refer to urban construction and maintenance fees, real estate tax, urban land use tax, stamp duty, farmland occupation tax, education surcharge, and local education surcharge. The beneficiary scope is further expanded to cover small-scale taxpayers, small and low-profit enterprises, and sole proprietors;
- CIT reliefs are offered to cut the effective CIT rate for small and low-profit enterprises: 2.5% instead of 5% for an income under CNY 1 million; 5% instead of 10% for an income between CNY 1 million and RMB 3 million.

2. VAT refunds

		SAT Announcement [2019] No.84	SAT Announcement [2021] No.15	SAT Announcement [2022] No.14
a.	Scopes	Some advanced manufacturing	All advanced manufacturing	Multiple industries
b.	Means	Incremental refund	Incremental refund	Incremental / accumulating refund
c.	Criteria	Five criteria	Five criteria	Reduced to four criteria

The latest VAT refund policy has admitted more beneficiaries through the following adjustments:

- Scope expansion:* The beneficiaries cover now a much broader variety of industries, including manufacturing, small and low-profit enterprises, manufacturing, scientific research and technology

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services, electricity, heat, gas, fisheries, software and information technology services, ecological protection and environmental management, transportation, storage, and postal services.

- b) *Means increased*: Now both incremental and accumulating VAT credit balance can be qualified for VAT refund in the following manners.

Accumulating VAT credit balance	New policy	<p>Refunding accumulated credits is a one-off exercise, and therefore can only be used once (once done, the new refund will be about incremental credits). Accumulated credits is refunded within the following quota:</p> <ul style="list-style-type: none"> If period-end VAT credit balance \geq VAT credit balance on 31 Mar 2019, the refund = VAT credit balance on 31 Mar 2019; or If period-end VAT credit balance \leq VAT credit balance on 31 Mar 2019, the refund = VAT credit balance
Incremental VAT credit balance	Current policy	<p>How incremental credit is refund depends on whether accumulated credit has even been refunded or not:</p> <ul style="list-style-type: none"> If accumulated credit has never been refunded: New refund = Increment credit (i.e. difference between VAT credit balance of a period and VAT credit balance on 31 Mar 2019) If accumulated credit has been refunded: New refund = Period-end VAT credit balance

- c) *Criteria relaxation*: A taxpayer is no longer required to have a positive VAT credit balance when applying for VAT credit refunds while the other criteria remain the same as those implemented before.

3. VAT deductions

	Sectors	SAT Announcement [2019] No.39	SAT Announcement [2019] No.87	SAT Announcement [2022] No.11
a.	Production-supporting servicing sector	Granting of extra VAT credit by 10%	n/a	Period extended until 31 Dec. 2022
b.	Consumption-supporting servicing sector	Granting of extra VAT credit by 10%	Granting of extra VAT credit by 15%	Period extended until 31 Dec. 2022

4. Tax payment deferral

	Tax filing payments	SAT Announcement [2021] No. 30	SAT Announcement [2022] No. 2
Deferral allowed			
a.	Q4 of 2021	3 months	6 months
b.	Q1 and Q2 of 2022	No deferral	6 months

Note: The policy applies only to micro, small, and medium-sized enterprises in manufacturing sector. The taxes cover CIT, individual income tax, domestic VAT, domestic consumption tax, urban construction and maintenance tax, education surcharge and local education surcharge.

WTS China's observation

It is expected that China's economy will continue to be impacted by the enduring pandemic. Most of the latest tax incentives or reliefs are believed to be short-lived and limited in scope and period.

Prompt review and due application are the key to enjoying the maximum benefit to ease the cash flow stress. In addition, it should be noted that since the introduction of the VAT credit refund policy in 2019, the tax authorities

have especially instituted a risk indicator for VAT credit in their assessment system. Screening out improper or deceptive VAT refund claims should be included in a routine compliance check by the management.

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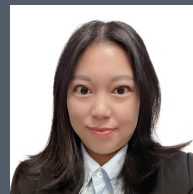
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