Measures to Support Enterprises Affected by COVID-19 Pandemic in China

Introduction

The COVID-19 pandemic has caused significant disruption to the business and operation of many enterprises in China. In order to help enterprises (especially SMEs) that are affected by the pandemic relieve their burden and overcome the difficulties during this period, the central government of China has released temporary policies, reliefs and guidelines. The ministries of the central government and the local governments have also issued temporary policies and reliefs in accordance with the guidelines issued by the central government.

Key Measures Implemented by the Central Government

We have summarised below some of the key measures implemented by the central government and the ministries of the central government:

1. Preferential Tax Policies

   On 6 February 2020, the State Taxation Administration and Ministry of Finance released several announcements (i.e. Announcement [2020] No. 8, No. 9 and No. 10, 财政部税务总局公告 2020 年第 8, 9, 10 号) which establish preferential tax policies effective from 1 January 2020 (the expiry date of the measures in these announcements will depend on the development of the pandemic). On 28 February 2020, the State Taxation Administration and Ministry of Finance further released an Announcement on Value-Added Tax Policy to Support the Resumption of Business of Self-Employed Persons (关于支持个体工商户复工复业增值税政策的公告) which has further exempted the value-added tax or reduced the tax rate for self-employed persons, and such exemption or reduced rate is applicable from 1 March 2020 till 31 May 2020.

   Please refer to Appendix I for the detailed policies issued by the PRC State Taxation Administration.

   These measures aim to support enterprises and individuals affected by the COVID-19 pandemic from a financial and tax perspective and to spur China’s economy.
2. Financial Support Regarding Loans


For enterprises in the industries such as the wholesale and retail, accommodation and catering, logistics and transportation, culture and tourism and other industries which are affected by the pandemic, as well as enterprises that have prospects for development but are temporarily experiencing difficulties as a result of the pandemic, especially small- and micro-enterprises, the financial institutions shall not withdraw loans, cut off loans or withhold extending loans at will. If enterprises seriously affected by the pandemic have difficulties in repaying their loans when due, the financial institutions may extend or renew their loans. The financial institutions shall support relevant enterprises to overcome the impact of the pandemic by lowering loan interest rates, increasing credit loans and medium- and long-term loans as appropriate. Governmental guarantee and re-guarantee agencies at all levels should cancel counter-guarantee requirements and reduce guarantee and re-guarantee fees. The State Financing Guarantee Fund will halve the re-guarantee fee for financial guarantee and re-guarantee institutions in areas seriously affected by the pandemic.

The financial institutions will strengthen credit support in key sectors such as manufacturing, small- and micro-enterprises and private enterprises. Financial institutions will continue to increase support for small- and micro-enterprises and private enterprises, maintain loan growth rates, and effectively implement comprehensive financing cost reduction requirements. The financial institutions will also increase investment in medium- and long-term loans for the manufacturing sector.

3. Employment Policies

On 24 January 2020, the Ministry of Human Resources and Social Security (人力资源社会保障部) issued a Notice regarding the Proper Handling of Employment Relations during the Prevention and Control of the Pneumonia Epidemic of COVID-19 (人力资源社会保障部办公厅关于妥善处理新型冠状病毒感染的肺炎疫情防控期间劳动关系问题的通知). Clause 2 of this notice provides that if a company has difficulties in production and operation due to the epidemic, it may, with the consensus of its employees, stabilise the jobs by adjusting their salaries, taking rotating breaks, shortening working hours, etc., and trying not to lay off or reduce the number of employees to be laid-off.
If a company suspends business and production within a salary payment cycle, the company shall pay the salary as stipulated in the employment contract to the employee during the first salary payment cycle. If suspension of business exceeds one salary payment cycle and if the employee has performed regular work during such period, the salary paid to the employee shall not be less than the local standard of minimum salary. If the employee has not performed regular work, the company shall pay a living subsidy to the employee, and the standard of living subsidy shall be implemented in accordance with the methods prescribed by local governments.

In addition, according to the Implementation Opinion issued by the State Council on Measures Dealing with the Impact of the COVID-19 to Strengthen and Stabilize Employment (国务院办公厅关于应对新冠肺炎疫情影响强化稳就业举措的实施意见) on 18 March 2020, various measures have been taken to strengthen and stabilise the employment relationship during the COVID-19 pandemic. For example, micro-, small- and medium-sized enterprises which do not lay off employees (or reduce the number of employees to be laid-off) could be refunded up to 100% of their previous year’s unemployment insurance premiums paid by them and their employees. Such measure could be applied to all enterprises in Hubei Province. Construction projects will be allowed to withhold payment of migrant workers’ wage deposits until the end of June 2020, with exemptions for enterprises with good payment records. Micro-, small- and medium-sized enterprises who recruit college graduates under employment contracts exceeding one-year will be provided with employment subsidies.

4. Phased Reduction of Social Insurance Contributions

On 20 February 2020, the Ministry of Human Resources and Social Security, together with the Ministry of Finance, and the State Taxation Administration issued a circular regarding Phased Reduction of Social Insurance Contributions for Enterprises (关于阶段性减免企业社会保险费的通知) from February 2020. Different applicable periods are provided in the circular for different enterprises. According to this circular, the employer’s portion of the social insurance contributions to be paid by micro-, small- and medium-sized businesses can be exempted for no more than five months, and the employer’s portion of the social insurance contributions to be made by large-enterprises and other work units can be reduced by 50% for no more than three months. There is also a special treatment provided for companies in Hubei Province. Please refer to Section E of Appendix I.
5. **Foreign Investment**

In order to stabilise foreign investments during the pandemic, relevant authorities in China took measures to further improve business and investment environment for foreign investors.

On 19 March 2020, the National Development and Reform Commission and Ministry of Commerce, by way of an announcement, launched a public consultation on the revision of the Catalogue of Industries Encouraging Foreign Investment (2019 Edition). According to the announcement, the revision is aimed to further expand the scope of encouraged industries for foreign investment. The intended revision and expansion of encouraged industries for foreign investment is one of the follow-up steps taken after the promulgation of the new PRC Foreign Investment Law and its Implementation Rules aiming to further expand foreign investment in China.

6. **Foreign Exchange Control**

On 24 March 2020, the State Administration of Foreign Exchange and People's Bank of China issued a notice ([银发[2020] 64号]) increasing the macro-prudential adjustment parameter from 1 to 1.25, which in turn increases the upper limit of risk weighted outstanding cross-border financing from 2 to 2.5 times of the net assets and indirectly increases the foreign debt quota by 25% to encourage the expansion of investment into China.

**Conclusion**

Generally speaking, as the COVID-19 pandemic in China has been under control, China has been in the process of re-activating its economy while preventing the virus from being imported and preventing a possible second wave of infections, and all the measures issued by the government aim at helping enterprises (especially the micro-, small- and medium-sized enterprises) relieve their burden and overcome the difficulties during this period.

In addition to the policies and measures issued by the central government and various ministries of the central government, the local governments have also issued temporary policies and reliefs in accordance with the guidelines issued by the central government. Thus, we would also advise enterprises to check the local policies of the place where its subsidiary is located on the specific requirements, to see whether they are qualified to receive the support under the measures and what application documents they shall prepare in order to obtain such support.
Further Information

Please feel free to contact us if you would like to have more information of the above policies or would like to understand more about the local policies being implemented in different provinces of China.

Visit our COVID-19 Resource Centre for views from our lawyers across the region on common issues and legal implications brought about by COVID-19. For specific inquiries, please reach out to your relationship partner or send an email to our COVID-19 Legal Team.

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APPENDIX I


China has unveiled a series of tax reform measures designed to meet the unprecedented challenge of the novel coronavirus outbreak. Let's take a look!

Section A: Support COVID-19 prevention, control and treatment

<table>
<thead>
<tr>
<th>Preferential subject</th>
<th>Preferential object</th>
<th>Preferential method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Medical staff and workers participating in disease</td>
<td>Temporary work subsidies and bonuses in accordance with specific standards</td>
<td>Exempted from individual income tax</td>
</tr>
<tr>
<td>prevention and treatment</td>
<td>stipulated by the governments at all levels</td>
<td></td>
</tr>
<tr>
<td>Other personnel participating in virus prevention and</td>
<td>Temporary work subsidies and bonuses stipulated by the people's government at or</td>
<td>Exempted from individual income tax</td>
</tr>
<tr>
<td>control</td>
<td>above the provincial level</td>
<td></td>
</tr>
<tr>
<td>Individual</td>
<td>Medical protective equipment given out by employers, excluding cash</td>
<td>Exempted from individual income tax</td>
</tr>
</tbody>
</table>

Duration: Starting 1 January 2020; the deadline depends on developments in the pandemic situation

Section B: Ensure material supply

<table>
<thead>
<tr>
<th>Preferential subject</th>
<th>Preferential object</th>
<th>Preferential method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Key pandemic prevention and control material production</td>
<td>Tax credits for the incremental value-added tax (VAT)</td>
<td>Refund in full</td>
</tr>
<tr>
<td>enterprises</td>
<td>Purchase equipment to expand production capacity</td>
<td>One-off deduction before corporate income tax</td>
</tr>
<tr>
<td>Taxpayers who provide transportation of essential</td>
<td>Income from transport of essential materials for pandemic prevention and control</td>
<td>Exempted from VAT</td>
</tr>
<tr>
<td>materials for pandemic prevention and control</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

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<table>
<thead>
<tr>
<th>Preferential subject</th>
<th>Preferential object</th>
<th>Preferential method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Taxpayers who provide public transport services</td>
<td>Income from provision of public transport services</td>
<td>Exempted from VAT</td>
</tr>
<tr>
<td>Taxpayers who provide life services</td>
<td>Income from provision of life services</td>
<td>Exempted from VAT</td>
</tr>
<tr>
<td>Taxpayers who provide express deliveries of daily necessities</td>
<td>Income from provision of express deliveries of daily necessities</td>
<td>Exempted from VAT</td>
</tr>
<tr>
<td>Health authorities</td>
<td>Imported materials for direct use in pandemic prevention and control</td>
<td>Duty-free</td>
</tr>
</tbody>
</table>

Duration: Starting 1 January 2020; the deadline depends on developments in the pandemic situation

Section C: Encourage public welfare donations

<table>
<thead>
<tr>
<th>Preferential subject</th>
<th>Preferential object</th>
<th>Preferential method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Company</td>
<td>Cash and items donated to fight against the pandemic from non-profit social organisations or the people's governments at or above the county level and their departments</td>
<td>Fully deducted before calculation of corporate or personal income tax</td>
</tr>
<tr>
<td>Individual</td>
<td>Direct donation of pandemic-resistance items to hospitals undertaking the disease prevention and treatment tasks</td>
<td>Fully deducted before calculation of corporate or personal income tax</td>
</tr>
<tr>
<td>Work unit Self-employed business</td>
<td>Free donation of self-produced, commissioned or purchased goods in response to the COVID-19 outbreak</td>
<td>Exempted from VAT, consumption tax, urban maintenance and construction tax, education surcharge, and local education surcharge</td>
</tr>
<tr>
<td>Donator</td>
<td>Imported goods necessary for direct pandemic control</td>
<td>Exempted from import tariffs, VAT and consumption tax</td>
</tr>
</tbody>
</table>
General- COVID-19

Duration: Starting 1 January 2020; the deadline depends on developments in the pandemic situation

Section D: Resumption of work and production Tax reduction and exemption

<table>
<thead>
<tr>
<th>Preferential subject</th>
<th>Preferential object</th>
<th>Preferential method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Enterprises in difficult industries severely affected by the pandemic</td>
<td>Losses in 2020 Note: difficult industries include: transportation, catering, accommodation, and tourism industries</td>
<td>The longest carry-over period is extended from five years to eight years</td>
</tr>
</tbody>
</table>

Duration: Starting 1 January 2020; the deadline depends on developments in the pandemic situation

<table>
<thead>
<tr>
<th>Preferential subject</th>
<th>Preferential object</th>
<th>Preferential method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Small-scale VAT taxpayers in Hubei province</td>
<td>Taxable sales income applicable to 3% tax rate</td>
<td>Exempted from VAT</td>
</tr>
<tr>
<td></td>
<td>Prepaid VAT items applicable to 3% prepaid rate</td>
<td>Suspension of prepaid VAT</td>
</tr>
<tr>
<td>Small-scale VAT taxpayers outside Hubei province</td>
<td>Taxable sales income applicable to 3% tax rate</td>
<td>Collect VAT at a reduced rate of 1%</td>
</tr>
<tr>
<td></td>
<td>Prepaid VAT items applicable to 3% prepaid rate</td>
<td>Prepaid VAT at a reduced prepaid rate of 1%</td>
</tr>
</tbody>
</table>

Duration: From 1 March 2020 to 31 May 2020

Section E: Social insurance contribution reduction and exemption

<table>
<thead>
<tr>
<th>Medium-, small- and micro- businesses</th>
<th>Employers’ payments to endowment, unemployment, and work injury insurance</th>
<th>Exemption No more than 5 months</th>
</tr>
</thead>
<tbody>
<tr>
<td>Large enterprises and other work units (Excluding government agencies)</td>
<td>Employers’ payments to endowment, unemployment, and work injury insurance</td>
<td>50% reduction No more than 3 months</td>
</tr>
</tbody>
</table>
### General-COVID-19

<table>
<thead>
<tr>
<th>Work units in Hubei province (Excluding government agencies)</th>
<th>Employers' payments to endowment, unemployment, and work injury insurance</th>
<th>Exemption</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>No more than 5 months</td>
</tr>
</tbody>
</table>

| Enterprises severely affected by the pandemic                  | May apply for deferred social insurance premium                          | Holdover period |
|                                                              |                                                                         | No more than 6 months |

| Work units                                                   | Employers’ payment of basic medical insurance for employees             | 50% reduction |
|                                                             |                                                                         | No more than 5 months |

Note: The specific implementation of the above policies shall refer to the public announcements released by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs.

Source: State Taxation Administration
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