

Managing China Tax issues in Covid-19 disruption period



Sales Activity

- Covid-19 has impacted consumption and sales activity
- Prolonged inventory cycle, increase in financing costs, pressures on cash flow
- VAT impact from sales returns and order cancellations by distributors
- VAT impact of contract termination or default

Donations

- Businesses donations for Covid-19 - Money and 'free' goods and services
- Free goods/services may trigger 'deemed sale' for VAT purposes – structuring important

Employee Safety

- Enterprise supply of protective supplies to staff – Input VAT credit where necessary for work
- No input VAT credit where solely for staff welfare, but not work-essential
- Dividing line requires detailed assessment

Abnormal Losses

- Input VAT credit not available where related activities generate “abnormal losses”
- Distinction between ‘normal’ and ‘abnormal’ losses may need discussion with tax authority

Rent

- Government has appealed to landlords to reduce/waive rents to support economy
- No VAT relief for bad debts, so landlords need to tailor rent contract changes
- Rent reductions/waivers and rent-free periods can be designed to avoid VAT leakage

Bad Debts

- Generally no VAT relief for bad debts
- Need to renegotiate customer contracts, or adjust supply or payment terms, to avoid VAT leakage

Cashflow

- In Covid-19 disruption period, businesses should minimize the timeframe between invoice issuance and collection of cash to manage output VAT cashflow impact
- If timely inflow of cash not assured, outflow of cash should be managed to avoid cashflow issues

Tax Filing

- Tax and customs authorities deferred filing and collection obligations in February 2020
- Businesses can proactively discuss expedited refunds/filing deferral with local authorities

Tax incentive policies



Frontline medical personnel – IIT relief

- IIT exemption for work subsidies/bonuses for medical personnel tackling Covid-19
- IIT exemption for Covid-19 medical and protective supplies given to employees



Protective materials production

CIT:

- 100% tax depreciation for newly purchased equipment for manufacturing of Covid-19 prevention and control materials

VAT:

- Exemption for income from transportation of Covid-19 prevention and control materials
- Refund of carried forward excess input VAT for manufacturers of Covid-19 prevention and control materials



Boost consumption – VAT relief

- Exemption for wide range of consumer services (“lifestyle services”), including medical services, catering, accommodation services, and sundry personal services (e.g. hairdressing, laundry)
- Public transportation services and express delivery services are also VAT exempt



Enhanced Efficiency in APA/MAP Negotiation

- Further to BEPS Action 14 commitments, STA has increased resources for APA/MAP and accelerated review and negotiation processes
- Transfer pricing certainty can be obtained through an APA
- Eliminate international double taxation through MAP



Alleviate business burdens – CIT relief

- Loss carry forward period extended from 5 years to 8 years for 2020 tax losses, for transport, catering, accommodation, and tourism. Extended to 10 years for certain high tech enterprises.
- Government subsidies for Covid-19 prevention and control may be exempted from CIT
- Deduction for reasonable expenditures for Covid-19 prevention/control and related asset losses
- For qualified small, low-profit enterprises (annual income < CNY3 million), the effective CIT burden can be reduced to between 5% and 8.4%
- Super deduction of 75% for R&D expenditure for Covid-19 prevention and control (i.e. deduct 175% of amount spent). Intangible asset outlays are entitled to tax amortization at 175%



Encourage charitable donations

Import duties and taxes

- Imported materials donated free of charge for Covid-19 prevention and control are exempt from import duties and taxes. Import duties and taxes already paid will be refunded

CIT / IIT

- CIT deduction for cash and goods donations for Covid-19 prevention and control
- Qualifying donations can be made through public welfare social organizations, state governments or directly to hospitals responsible for Covid-19 prevention

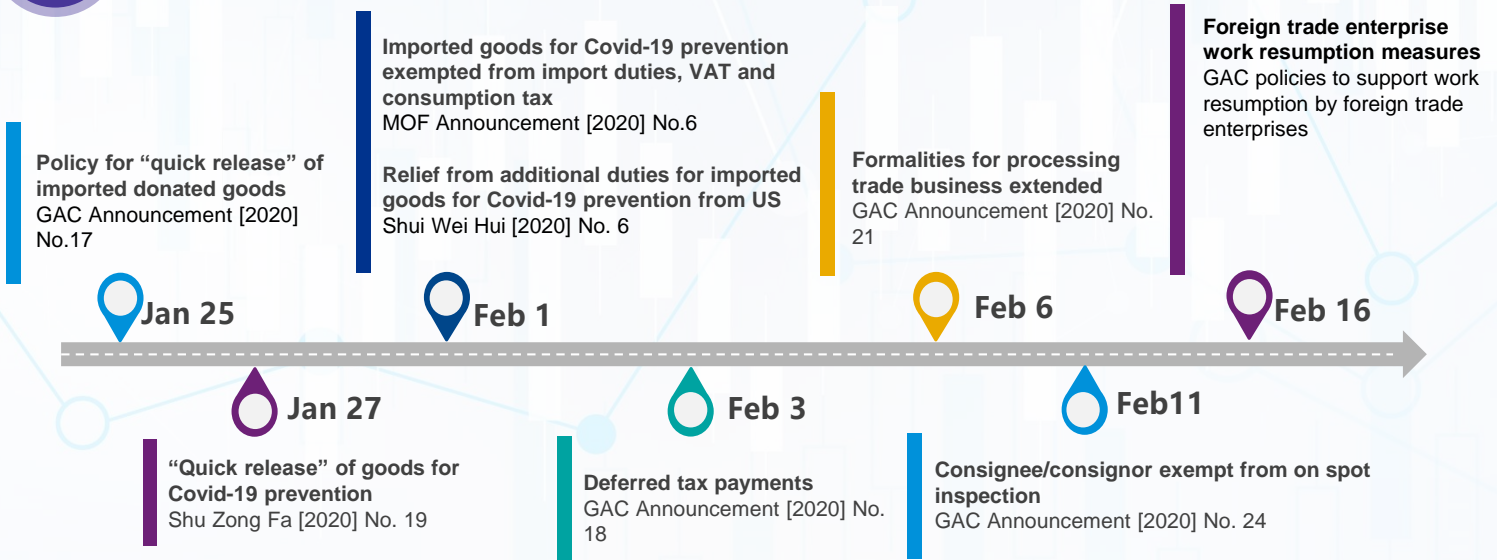
Indirect Taxes

- Donation exemptions are provided for VAT, Consumption Tax, City Maintenance and Construction Tax, Education Surcharges, and Local Educational Surcharges.



Customs incentive policies

Policy Timeline



Policy Overview

Customs clearance procedures and cargo inspection

- 'Green' channels for quick check of donated goods
- Donations registered and released first, tax reduction and exemption procedures applied later
- Customs shall examine the goods, and the consignee or consignor may entrust agent to assist on the spot

Deferred tax payment

- Tax payment for January postponed to Feb.28
- Where time limit for tax payment expires prior to resumption of work, tax to be paid within 15 days of work resumption - no overdue fines charged
- For overdue customs on imported goods, levy date postponed to work resumption date

Imported duty-free goods

- Expanded scope for duty-free import of donated goods - imported goods donated for Covid-19 prevention exempt from import duties, VAT and consumption tax
- Tax paid on donated imported goods will be refunded
- Donated goods from US not subject to additional duties and tax paid will be refunded

Processing trade and other items

- Timelines for registration formalities for processing trade enterprises extended by Customs
- Donated bonded goods released as soon as registered with Customs
- Customs gives registration priority to Covid-19 prevention and control materials



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