

Striking back against the outbreak of COVID-19: highlights of tax treatment for corporate and individual donations

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In brief

In order to support the prevention and control of the novel coronavirus pneumonia (COVID-19), charitable social organisations across China have taken prompt actions, and many enterprises and individuals are making donations.

In light of this unusual period, based on our experience in assisting clients on donation matters, we summarise below the tax treatment on donations and matters which need attention.

In detail

I. Direct donation to hospitals with goods purchased within China

Recently, we assisted a client with the whole donation process from purchase of medical goods and speedy arrangement of logistics and transportation to deliver medical supplies to a number of designated hospitals in Hubei Province. We summarise the following key points by drawing on the above case.

❖ Corporate and individual tax treatment on domestic donations:

1. Donation channels: Are donations not made through qualified charitable social organisations deductible for tax purposes?

Enterprise and individual donors can claim tax deduction for qualified charitable donations. To be eligible for such tax treatment, the donation should be made via either charitable social organisations legally established or registered within China with the tax deductible donation qualification, or people's governments and their departments above the county level. However, during this epidemic period, a large number of enterprises and individuals have donated medical supplies directly to front-line hospitals who are in urgent need. Does such direct donation qualify for tax deduction? Under the existing policies, tax deductible treatment may be available in certain regions for "designated donation" made by enterprises and individuals to specified medical institutions via qualified organisations mentioned above. Some organisations have now simplified the procedures for designated donation, allowing donors to send the supplies directly to the target medical institutions and complete the donation formalities and obtain the donation certificate later.

2. Tax deduction cap for donation: What's the cap? Can it be fully deducted?

The tax deduction cap and carry-forward rule for donations are different under the corporate income tax ("CIT") regime and individual income tax ("IIT") regime. In terms of CIT and value added tax ("VAT"), "deemed sales" treatment may also be applicable. Details are summarised in the following table.

	Income tax		VAT and Surcharges
	CIT	IIT	
Cash donation	<ul style="list-style-type: none"> • Tax deduction 	Tax deduction	Not applicable
In-kind donation (e.g. face masks, drugs, and protection supplies)	<p>Cap at 12% of total annual profit in general.</p> <p>Excessive portion can be carried forward to the subsequent 3 years.</p> <ul style="list-style-type: none"> • “Deemed sales” treatment for in-kind donation and donation of services <p>Revenue of deemed sales and relevant cost is generally recognised at fair value, and the donation cost is deducted at fair value correspondingly.</p>	<p>Cap at 30% of taxable income in general.</p> <p>Cross income category deduction available.</p> <p>Carry-forward rule not available.</p> <p>Donations via certain organisations specified by authorities, or donations for special purposes (such as compulsory education in rural areas) can be fully deducted.</p>	Regarded as sales at market price or composite assessable price
Donation of services (e.g. insurance, transportation services)		Not applicable	Free-of-charge services rendered for public benefits shall not be regarded as sales.

Donations for public benefits are generally subject to deduction cap for income tax purpose and enterprises may also need to treat in-kind donation as sales for VAT purpose. However, based on experience from the SARS epidemic and post major disaster reconstruction support, we expect that the finance and taxation authorities will explore more favourable policies for such anti-epidemic donations to encourage people across the country to make donations.

3. Proof of donation: How to enjoy the tax deduction treatment?

Proof of donation is required for both enterprises and individuals in claiming tax deduction. There are two types of proof, i.e. *Certificate of Donation for Public Benefits* officially printed by the Ministry of Finance or provincial level finance authorities with the stamp of the donee, and the receipt copy of *General Payment Voucher of Non-tax Revenue* with the stamp of the donee. For in-kind donation, the receiving organisations need to confirm the fair value of the goods and issue certificate of donation based on the supporting evidence provided by the donor. Therefore, it is crucial for the donor to obtain invoices for purchased goods.

The aforementioned client had donated the purchased medical supplies directly to medical institutions. We are assisting the client to collect original supporting documents for the purchase and donation, and contacting qualified social organisations for issuing the certificate of donation so that the client could claim tax deduction for CIT purpose.

II. Donation to domestic charitable organisations with goods purchased overseas

One of our clients purchased a batch of protective suits from overseas by leveraging on its global network and reliable overseas medical supplies procurement resources. The supplies were then donated to a domestic charitable organisation by the client’s China entity. Through collaborating with the carrier airline and the logistics service provider, the client received shipping and transportation services free-of-charge by applying for the special policies in the aviation/logistics industry.

PwC Tax and Customs teams provided comprehensive professional support to the client to quickly tackle problems and clear the cross-border donation channel.

❖ Key issues relating to customs policies for cross-border donations:

In accordance with the *Interim Measures on the Exemption of Import Tax on Charitable Donations* jointly issued by the Ministry of Finance (MoF), the General Administration of Customs (GAC) and the State Taxation Administration (STA) in 2015 (MOF/GAC/STA Public Notice [2015] No.102, "PN 102"), import tariff and import VAT can be exempted for qualified import of donation goods. The relevant criteria include scope of goods for charitable donation purpose, eligibility of the donor, qualification of the donee, compliance of customs clearance, etc. On 1 February this year, the above authorities jointly issued the *Public Notice of Tax Exemption Treatment for Imported Goods relating to the Prevention and Control of Coronavirus Outbreak* (MOF/GAC/STA Public Notice [2020] No. 6, "PN 6"), which provides preferential import tax treatment for goods and supplies imported for anti-epidemic purpose. In addition, the GAC has rolled out more convenient and effective measures for customs clearance.

1. Scope of imported goods

The scope is expanded from drugs, medical instruments, daily necessities, food and drinking water etc. to reagents, disinfectant, protective goods and materials, ambulances, epidemic prevention vehicles, disinfection vehicles and emergency command vehicles for epidemic prevention and control purpose. Goods and supplies currently in urgent need for epidemic prevention and control, including surgical masks, protective suits, goggles and medical rubber gloves, are included.

2. Restriction on donors

Eligible donors now extends from natural persons, legal persons or other organisations abroad to those relevant domestic government bodies, enterprises and public institutions, social organisations, individuals and foreigners visiting or staying in China, who import from overseas or areas under special supervision of the customs and make direct donation. Donations by domestic processing trade enterprises are also included.

3. Qualification of donees

In addition to government bodies above the provincial and ministerial level and certain charitable organisations such as Red Cross, donees now include provincial civil affairs authorities or entities designated by those authorities. The provincial civil affairs authorities will provide the list of the designated entities to the local customs authorities and provincial tax authorities.

4. Customs clearance procedures and document requirement in cases where the importation and donation are in different locations

To support the anti-epidemic combat and ensure timely delivery of donated goods, all customs offices currently adopt the practice to allow the imported goods to be released first after registration, with the relevant formalities to be handled later. For example, if the goods are donated to a donee in Zhengzhou of the Henan Province, while the location of import and corresponding customs clearance is in Shanghai, the procedures are set out as follows:

- Step 1: The donee issues the *Certificate for Import of Overseas Charitable Donations Received by Donee* and the *List for Donation Distribution and Usage* to the donor;
- Step 2: The donor goes through the on-site registration and release process with Shanghai Customs with the above documents;
- Step 3: The donee goes through the tax exemption review and confirmation procedures with the customs of its own location at a later stage (i.e. Zhengzhou Customs in this example).

5. Document requirement for subsequent tax exemption declaration by donees

Domestic donees should provide the following documents for subsequent tax exemption declaration:

- 1) Scanned copy of overseas donation letter
- 2) Packing list
- 3) Invoice
- 4) Receipt issued by the donee

Our client, being the donor, needs to provide the donee with item 1) to 3) listed above.

It is noteworthy that, as PN 6 is retroactive to 1 January 2020, for imported goods qualified for the PN 6 tax exemption treatment, duties that have been paid will be refundable. Donors can claim refund of duties with the customs before 30 September 2020.

In addition to helping clients with cross-border donations, PwC is also taking actions to donate. Our first-hand experience makes us realise that cross-border donations require joint efforts of multiple parties. The global network, professional collaboration of multiple teams, as well as the industry-wide client relationship and mutual trust and cooperation are key to efficient and successful cross-border donations. We would like to give special thanks to Juneyao Airlines, Deppon Express and the member firm of PwC Finland for their support and assistance.

III. Financial and taxation policies safeguarding enterprises to journey through the tough time

Financial and taxation policies are always among the essential means to combat disasters and support the society. The finance, taxation and customs authorities have responded in a timely manner and introduced a series of supporting policies. In the meantime, authorities are also actively seeking feedback from enterprises on their needs and will continue to formulate relevant policies. Some local tax authorities also provided guidelines to help enterprises to pull through. Looking back at the series of financial and taxation supporting policies for anti-SARS and considering the specific situation of the COVID-19, industries are looking forward to policies pertaining to the following aspects to help fight against the epidemic and resume business.

• Encouraging anti-epidemic donations

Remove the pre-tax deduction cap on anti-epidemic donation for both CIT and IIT purposes; consider allowing direct donations to medical institutions designated with anti-epidemic task to be tax deductible and eligible for preferential import tax policies; not to treat in-kind donations as deemed sales for VAT purpose so that they would not be subject to VAT and surtax; provide detailed instructions for tax exemption treatment in relation to the "import and direct donation" model used by enterprises.



- **Protecting the supply of anti-epidemic goods**

Suggest to expand the import tariff and VAT exemption to the import of self-use anti-epidemic supplies by enterprises for the purpose of protecting employees' health and safety so that to lower their anti-epidemic cost; allow enterprises not to transfer out the input VAT with respect to the protective supplies (e.g. masks) or other protection support provided to employees; allow protective supplies received by the employees not to be considered as taxable benefit for IIT purpose; adopt "special treatment" for enterprises that cannot obtain standard invoice or invoices timely for anti-epidemic goods purchased through various channels.

- **Supporting epidemic-stricken industries and regions**

Provide supporting policies and measures including tax relief, extension of tax declaration and payment, etc. for industries deeply affected by the epidemic, such as wholesale and retail, accommodation and catering, culture and tourism, logistics and transportation, as well as enterprises not able to fully resume business; enhance the implementation of tax policies for small and thin-profit enterprises; consider temporary tax relief and exemption for severely affected areas such as Hubei Province; allow CIT deduction of asset losses on business suspension caused by the epidemic; provide property tax relief for property owners that offer free-rent during the epidemic period.

- **Supporting the resumption of business in multiple aspects**

In addition to postponing the payment of enterprises' social security contributions, continue to consider lowering the social security contribution rates in stages; provide favourable tax treatment on overtime wages paid by enterprises that have been in production of protective equipment during the Chinese New Year public holiday; consider special tax support to financing platforms targeting small and thin-profit enterprises; vigorously explore ways to conduct no contact taxpayer services, such as electronic VAT special invoice.

PwC will continue to keep track of the situation, convey messages on difficulties and needs of industries with suggestions to relevant authorities and with the hope that tax policies will help enterprises to pull through this difficult time.



Let's talk

For a deeper discussion of how this issue might affect your business, please contact **PwC's China Tax and Business Service Team**:

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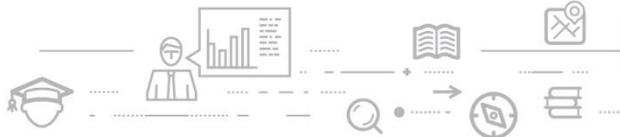
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