

# Striking back against the outbreak of COVID-19: a series of fiscal and taxation policies to prevent and control the epidemic were released

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## In brief

In response to the severe epidemic situation of the novel coronavirus pneumonia (COVID-19), Chinese governments at all levels rapidly issued several policies to control the epidemic and support the economy. On February 5, the executive meeting of the State Council decided to launch a series of fiscal and taxation policies in addition to the previously introduced measures, to ensure that there are sufficient supplies for the epidemic prevention and control work, effective from 1 January 2020.

On February 7, the Ministry of Finance (MOF) issued four policies jointly with other departments:

- Public Notice Jointly Issued by the MOF and State Taxation Administration (STA) Regarding Tax Policies to Prevent and Control the Outbreak of COVID-19 (the MOF and STA Public Notice [2020] No. 8)
- Public Notice Jointly Issued by the MOF and STA Regarding Tax Policies for Donations to Prevent and Control the Outbreak of COVID-19 (the MOF and STA Public Notice [2020] No. 9)
- Public Notice Jointly Issued by the MOF and STA Regarding Individual Income Tax Policies to Prevent and Control the Outbreak of COVID-19 (the MOF and STA Public Notice [2020] No. 10)
- Public Notice Jointly Issued by the MOF and the National Development and Reform Commission (NDRC) Regarding the Exemption of Certain Administrative Fees and Government-managed Funds (the MOF and NDRC Public Notice [2020] No. 11)

The policies focus on manufacturers of epidemic prevention and control supplies, relevant transportation companies and medical companies, etc., and aim at lowering the production and operation cost for the relevant enterprises, energising the expansion of supply of epidemic prevention materials, and medical and pharmaceutical supplies. In this issue of *China Tax/Business News Flash*, we will share with you the key points of these tax policies and our insights.

## In detail

In the table below, we summarised the relevant tax policies (MOF and STA Public Notice [2020] No. 8, 9 and 10) and our insights for your reference.

Taxes	Classification	Content of the policy	PwC's Observation
<b>Corporate Income Tax (CIT)</b>	Tax deduction	Costs of equipment acquired by enterprises for producing key anti-epidemic supplies are allowed to be deducted in one lump sum for CIT purpose.	<ul style="list-style-type: none"> <li>The threshold of unit price of RMB 5 million for equipment and instrument eligible for CIT deduction in one lump sum is being relaxed, so as to promote the production of anti-epidemic supplies.</li> <li>Enterprises should be mindful of keeping the equipment purchasing invoices.</li> </ul>
		Cash or in-kind donations made by enterprises via charitable social organisations or people's governments and their departments above county level to counter the COVID-19 are fully deductible for CIT purpose.	<ul style="list-style-type: none"> <li>The CIT deduction cap of 12% of total annual profit is being relaxed.</li> <li>From the CIT perspective, for in-kind donation of goods, deemed sales and relevant cost should be recognised at fair value, and the donation cost is fully deducted at fair value which would result in no additional CIT cost. However, enterprises shall properly make book-to-tax adjustments when performing annual CIT filing.</li> </ul>
		In-kind donations made directly by enterprises to hospitals that are engaged in preventing and controlling COVID-19 epidemic are fully deductible for CIT purpose.	<ul style="list-style-type: none"> <li>Enterprises that made in-kind donations of supplies directly to front-line hospitals can enjoy the same CIT deduction treatment as other enterprises making donations via designated organisations aforementioned.</li> <li>Certificate for deduction: the donation receipt issued by the hospitals undertaking anti-epidemic tasks.</li> </ul>
	Carry-forward of losses	Enterprises in certain industries that are greatly affected by the epidemic ("affected industries") are allowed to carry forward the loss incurred within 2020 to subsequent 8 years, instead of the standard 5 years.	<ul style="list-style-type: none"> <li>CIT burden of enterprises in affected industries can be relieved in 2020 and the following years.</li> <li>Affected industries include transportation, catering, accommodation and tourism. Enterprises in affected industries refer to enterprises whose revenue from the main operations should account for more than 50% of their total revenue (excluding non-taxable income and investment income) in 2020. However, other industries that are also affected by the epidemic, for example, apparel retailing, are not included.</li> </ul>
<b>Value-added tax (VAT) and surcharges</b>	VAT Exemption	Income derived from transporting key anti-epidemic supplies are exempted from VAT.	<ul style="list-style-type: none"> <li>It is worth noting that whether the input VAT incurred for these VAT exempt items should be transferred out.</li> <li>This policy does not cover rendering of services without compensation (for instance, logistic companies transporting medical supplies for free). In accordance with Cai Shui [2006] No. 36, free-of-charge services rendered for public benefits shall not be regarded as sales.</li> </ul>
		Income derived from public transportation services, consumer services, and delivery services for daily necessities are exempted from VAT.	
		Donations of self-manufactured goods, goods processed on a commission basis or purchased goods by enterprises or individual businesses via charitable social organisations or people's governments and their	<ul style="list-style-type: none"> <li>Same as above, whether the input VAT incurred for these VAT exempt items should be transferred out or not.</li> </ul>

		departments above county level, or directly to hospitals undertaking anti-epidemic tasks, are exempted from VAT, Consumption Tax, Urban Maintenance and Construction Tax, Education Surcharge and Local Education Surcharge.	
	Excess input VAT refund	Enterprises producing key anti-epidemic supplies are allowed to apply for the refund of VAT credit balance on a monthly basis.	<ul style="list-style-type: none"> <li>• Provide cash flow pressure relief for certain manufacturing enterprises with the policy of refund of incremental excess input VAT as compared with the end of December 2019.</li> </ul>
<b>Individual Income Tax (IIT)</b>	Deduction before tax for donation	Cash or in-kind donations by individuals via charitable social organisations or people's governments and their departments above county level to counter COVID-19 are fully deductible for IIT purpose.	<ul style="list-style-type: none"> <li>• The tax deduction cap of 30% of taxable income is being relaxed.</li> <li>• Both resident and non-resident individuals can enjoy this special full deduction. However, for non-resident individuals, deduction is only allowed in the month they make the donation (except for those who receive business income).</li> </ul>
		In-kind donations made by individuals directly to hospitals that are engaged in preventing and controlling COVID-19 epidemic are fully deductible for IIT purpose.	<ul style="list-style-type: none"> <li>• Individuals' direct donation to hospitals can enjoy a full deduction even though they are not made through charitable social organisations.</li> </ul>
	IIT Exemption	<p>For medical staff and other personnel participating in the prevention and control of the epidemic, temporary work allowance and bonuses they receive in accordance with the standards prescribed by the government are exempted from IIT.</p> <p>Medicines, medical supplies and protective supplies (excluding cash) provided to employees shall not be included in their wages and salaries, and not be subject to IIT.</p>	<ul style="list-style-type: none"> <li>• It reflects that fiscal and taxation authorities understand and support front-line doctors and nurses and other anti-epidemic workers.</li> <li>• Government-prescribed standards refer to the standards prescribed by governments at all levels. For example: Cai She [2020] No. 2 states, "A subsidy from the central treasury of RMB 300 per day is granted to those who directly contacts suspected patients or confirmed patients, or is involved in diagnose, treatment, nursing, infection control, virus sample collection and pathogen detection. A subsidy from the central treasury of RMB 200 per day is granted to other medical personnel or anti-epidemic worker involved in the prevention and control of epidemic."</li> </ul>

### The takeaway

In the process of implementing the above policies, we expect relevant authorities to define the list of "enterprises producing key anti-epidemic supplies" and the specific scope of "key anti-epidemic supplies" as soon as possible. In accordance with the *Urgent Circular on Strengthening the Funding Support for Enterprises Producing Key Anti-Epidemic Supplies* (Cai Jin [2020] No. 5) issued in the evening of 7 February jointly by the MOF, NDRC, Ministry of Industry and Information Technology, People's Bank of China, and the National Audit Office, provincial authorities can issue the list of local qualified enterprises on their own. It is recommended that the process for enterprises' independent application should be implemented as soon as possible, as well as allow special process in case of emergency. In addition, we also suggest that relevant local government departments and tax authorities should actively publicise and promote the aforementioned policies and implementation measures to taxpayers through online channels.

In order to ensure that enterprises can enjoy these policies, relevant enterprises need to review the completeness of their financial accounting and tax compliance. Take excess input VAT refund as an example, on the one hand, enterprises should prove their qualification of "enterprises producing key anti-epidemic supplies" with well-prepared documents; on the other hand, enterprises must pay attention to the accuracy of their accounting of input and output VAT, including the accuracy of the recognition of taxable income and the appropriateness of the historical taxable income, to accurately calculate the amount of tax refund and communicate tax refund affairs with the in-charge tax authorities as soon as possible. For the

exemption policy with industry restrictions, enterprises should pay attention to whether their main operations fall within the exemption scope. Enterprises and individuals that have donated goods should pay attention to the keeping and submission of purchasing invoices, so that charitable social organisations and hospitals can determine the value of donated goods according to the invoices and issue donation receipts or donation acceptance letters.

In addition, to address the epidemic outbreak and its economic impact, we also expect authorities at all levels to continue to provide a larger scale of fiscal and taxation support to industries greatly affected by the epidemic (including but not limited to transportation, catering, accommodation, tourism, apparel retailing and other industries) and other enterprises that are not able to resume operation in time or in full capacity. At present, commonly concerned issues include: exemption and relief of Real Estate Tax and Urban Land Use Tax for trouble enterprises; considering the feasibility to lower the social security contribution rate by stages in addition to the delay of payment of enterprises' social security contribution; strengthening tax support for small and micro enterprises; increasing the deduction of R&D expenses related to epidemic in medical institutions and scientific research institutions by stages; granting the same excess input VAT refund policy to other R&D enterprises related to epidemic prevention and other enterprises greatly affected by epidemic. PwC will follow up on the financial and taxation policies relating to the prevention and control of epidemic, and share with you timely.



## 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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## One-stop tax information platform of Shui Jie 2.0 version

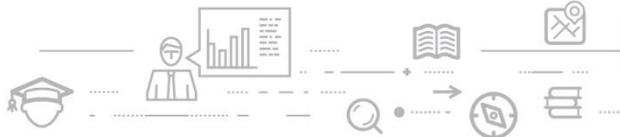
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This China Tax and Business News Flash is issued by the **PwC's National Tax Policy Services** in Mainland China and Hong Kong, which comprises of a team of experienced professionals dedicated to monitoring, studying and analysing the existing and evolving policies in taxation and other business regulations in Mainland China, Hong Kong, Singapore and Taiwan. They support the PwC's partners and staff in their provision of quality professional services to businesses and maintain thought-leadership by sharing knowledge with the relevant tax and other regulatory authorities, academies, business communities, professionals and other interested parties.

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