A glimpse of key fiscal and tax policies in China's Government Work Report in 2020

News Flash
China Tax and Business Advisory
May 2020
Issue 11

In brief

On 22 May 2020, Premier of the State Council delivered the <Report on the Work of the Government> ("Report") [1] at the third session of the 13th National People's Congress (NPC). The Report reviews China's economic and social development work in 2019 and the first few months of 2020, and sets forth the main development targets and the overall plan for the next stage of work.

China has continued implementing proactive fiscal policies and a larger scale of taxes and levies reduction in 2019, with a major focus on relieving the tax and levy burden of the manufacturing sector and small and micro enterprises (SMEs). The tax and levy reduction measures which have been introduced includes: further lowering the Value-added Tax (VAT) rates, reducing the percentage of basic pension insurance contribution paid by enterprises, implementing the general preferential tax policies for SMEs and revising the Individual Income Tax (IIT) Law which encompass six types of special additional deductions. It is stressed in the Report that China has reduced taxes and levies in the total amount of RMB 2.36 trillion during 2019, exceeding the original target of around RMB 2 trillion, with the manufacturing sector and SMEs benefiting the most.

In response to the impact of the COVID-19 pandemic on the macro-economy and market players, the Report proposes to further reduce taxes and levies and aggressively implement current policies in conjunction with institutional arrangements to create a more enabling environment and help market players overcome difficulties and achieve development. The major taxes and levies reduction policies include: continue implementing reduction of VAT rates and the percentage of basic pension insurance contribution paid by enterprises, extending the expiry date of policies introduced earlier, such as: exempting medium enterprises and SMEs from contributing basic pension insurance, unemployment insurance and work injury insurance; reducing or cancelling VAT for small-scale taxpayers; exempting VAT on certain services; and reducing or cancelling civil aviation development fund contributions and port development fees, to the end of 2020. It is expected that these measures will additionally reduce the burden of enterprises by over RMB 2.5 trillion for the year.

In this issue of News Flash, we summarize the tax and levy reduction policies to be implemented in the second half of this year, and share with you our observations.

In detail

Highlight one: Continuing the institutional arrangements regarding VAT reduction

Since the completion of the B2V Pilot Program in 2016, deepening the VAT reform and optimizing the structure of VAT rates has been the biggest fiscal and tax highlight of the Report in every year. In recent years, China has released a series of measures to deepen the VAT reform, including: simplifying and reducing VAT rates, further perfecting the VAT credit chain, implementing the refund policies for incremental excess input VAT and accumulative input VAT credit balance, optimizing the export VAT refund policies for goods and services and further improving the preferential VAT policies, etc. Continued implementation of the measures to deepen the VAT reform will have a cumulative effect on sustaining the reduction of tax burdens of enterprises, as well as help enterprises overcome difficulties and maintain sustainable economic development.

It should be noted that the Report proposes to continue implementing reductions of VAT rates instead of adjusting the structure of VAT rates, which indicates that, in addition to the zero VAT rate, China may continue to adopt the prevailing three VAT rate brackets of 13%, 9% and 6% in the near future.

In November 2019, the Ministry of Finance (MOF) and the State Taxation Administration (STA) jointly released the consultation draft of China's VAT Law, which retains the prevailing three VAT rate brackets as well. Based on the background of reducing taxes and levies in recent years and the requirement of "simplifying the VAT rate brackets from three to two" by the State Council, it is well-worth monitoring whether the VAT rate brackets will be adjusted and simplified while China is moving forward with the enactment of the VAT law.

Highlight two: Extending the VAT incentives for the prevention of COVID-19 outbreak

In response to COVID-19 outbreak and to support enterprises and economy development, the MOF and STA jointly released Public Notice [2020] No.8[2] and Public Notice [2020] No.13 in February 2020 to clarify certain preferential tax treatments as follows:

- Income derived from transporting key pandemic prevention materials are exempted from VAT;
- Income derived from public transportation services, consumer services and certain express delivery services are exempted from VAT;
- Key pandemic prevention manufacturing companies are allowed to apply for the refund policy of VAT credit balance on a monthly basis
- From 1 March to 31 May 2020, small-scale VAT taxpayers in Hubei province have been granted temporary exemption of VAT and those in other regions in China have been granted a reduced levy rate of 1%. For certain items subject to VAT prepayment, the levy rate is also reduced at 1%.

The Report proposes to extend the implementation period of VAT reduction for small-scale VAT taxpayers and VAT exemption on certain services, such as public transportation, catering and accommodation, tourism and entertainment, and cultural and sports to the end of 2020. This extension further supports small-scale VAT taxpayers and consumer service taxpayers that are greatly affected by the pandemic in resuming work and production.

Highlight three: Supportive tax and levy policies for medium enterprises and SMEs

- **Continue to reduce social security contributions paid by medium enterprises and SMEs:** In order to support enterprises in the resumption of work and production, as well as stabilize and expand employment, the MOHRSS, MOF and STA jointly issued the <Notice to Cut Social Security Contributions Borne by Enterprises by Phases> (MOHRSS Fa [2020] No.11[3]) in February 2020, providing that from February 2020, enterprises of different sizes in different regions can enjoy reduction or exemption of the basic pension insurance, unemployment insurance and injury insurance (hereinafter referred to as "social security contributions"). The Notice also clarified that medium enterprises and SMEs were exempted from social security contributions, with the exemption period of not exceeding 5 months (i.e. due to expire in June 2020).

  To help medium enterprises and SMEs get through this challenging time and to ensure employment and people's wellbeing, the Report proposes to extend the exemption period of social security contributions by enterprises to the end of 2020, which will further relieve their labor cost burdens. We anticipate that the MOHRSS, MOF and STA will issue a new circular in accordance with the Report to implement this policy before the end of June.

- **Postpone income tax payments of SMEs and sole proprietors:** Apart from exempting medium enterprises and SMEs from paying social security contribution, the Report also mentions that the income tax payments of SMEs and sole proprietors will be postponed to 2021. This initiative will have a positive effect on relieving the cash flow pressure of SMEs and sole proprietors. It is expected that the MOF and STA will issue relevant regulations to clarify the applicable conditions, the specific procedures, etc., in relation to postponing income tax payments by SMEs and sole proprietors.

The takeaway

"Taxes and levies reduction" has been a key phase of China's macro-economic control and proactive fiscal policies in recent years. In response to the changes in domestic and international economic landscapes, China has successively launched a series of policies and measures to reduce taxes and levies, so as to support the development of the real economy and vitalize market players. The total amount of taxes and levies reduction exceeded RMB1.3 trillion in 2018, and that amount reached to RMB 2.36 trillion in 2019. The 2020 Report further sets a target of over RMB 2.5 trillion for reducing taxes and levies for this year. These policies will relieve burdens on various market players, especially SMEs, which can stabilize employment, ensure living standards as well as keeping the fundamentals of the economy stable.

The <Opinions of the Central Committee of Communist Party of China ("CCCPC") and the State Council on Optimizing the Socialist Market Economy System in New Era>[4], which was issued recently, also pointed out the direction for China's next-step tax reform, including: deepening the tax reform, advancing the direct tax system and gradually increasing its proportion, moving the levying of consumption tax (CT) to later stages, establishing and optimizing the aggregate and scheduler IIT regime, steadily promoting the enactment of the property tax law, improving the local tax regime, adjusting and refining the local tax system to foster the sources of local tax revenue and to steadily expand the power of local tax administration.

So far, 9 out of the prevailing 18 types of taxes have been enacted (including Vehicle and Vessel tax, Environmental Protection Tax, Tobacco Tax, Vessel Tonnage Tax, Corporate Income Tax, Arable Land Occupation Tax, Vehicle Purchase Tax, IIT and Resource Tax), while the enactment of the other 9 types of taxes is undergoing. The draft Deed Tax Law and the draft Urban Maintenance and Construction Tax Law were passed to the Standing Committee of the NPC for the first review and also were issued to solicit public opinions. The MOF and STA jointly released the consultation drafts of the VAT Law and CT Law for public comments. It is also reported that the draft Stamp Duty Law is under legislative review by the Ministry of Justice. We note that in February 2020, the MOF issued a legislative work plan for 2020 which also mentioned that it is striving to complete the drafting of VAT Law, CT Law and Tariff Law for submission to the State Council in due course.

Under the current situation of great uncertainty due to the COVID-19 pandemic and the global economic and trade environment, the Report proposes to pursue a more proactive and impactful fiscal policy to support the reduction of taxes and levies and to release positive signals relating to helping market players to overcome difficulties, coordinating the advancement of pandemic control as well as promoting economic and social development. We will closely monitor the interpretations on the taxes and levies reduction measures covered in the Report and the upcoming circulars, and share with you our observations timely.

Endnote

1. For the <Report on the Work of the Government in 2020>, please refer to:
   http://www.xinhuanet.com/politics/2020lh/2020-05/22/c_1126018545.htm

2. For the <Public Notice Jointly Issued by the MOF and STA Regarding Tax Policies to Prevent and Control the COVID-19 Outbreak> (MOF and STA Public Notice [2020] No.8), please refer to China Tax and Business News Flash 2020 Issue 06.

3. For the <Notice Jointly Issued by the MOHRSS, MOF and STA to Cut Social Security Contributions Borne by Enterprises by Phases> (MOHRSS Fa [2020] No.11), please refer to the official link:
   http://www.mohrss.gov.cn/gkml/zcfg/gfxwj/202002/t20200221_360350.html

4. For the <Opinions of the CCCPC and the State Council on Optimizing the Socialist Market Economy System in New Era>, please refer to the official link:
   http://www.gov.cn/xinwen/2020-05/18/content_5512696.htm

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**:

Peter Ng
+86 (21) 2323 1828
peter.ng@cn.pwc.com

Spencer Chong
+86 (21) 2323 2580
spencer.chong@cn.pwc.com

Edwin Wong
+86 (10) 6533 2100
edwin.wong@cn.pwc.com

Alan Yam
+86 (21) 2323 2518
alan.yam@cn.pwc.com

Charles Lee
+86 (755) 8261 8899
charles.lee@cn.pwc.com

Jeremy Ngai
+852 2289 5616
jeremy.cm.ngai@hk.pwc.com

With close to 3,750 tax professionals and over 200 tax partners across Hong Kong, Macau, Singapore, Taiwan and 23 cities in Mainland China, **PwC's Tax and Business Service Team** provides a full range of tax advisory and compliance services in the region. Leveraging on a strong international network, our dedicated China Tax and Business Service Team is striving to offer technically robust, industry specific, pragmatic and seamless solutions to our clients on their tax and business issues locally.

In the context of this News Flash, China, Mainland China or the PRC refers to Mainland China, and excludes Hong Kong Special Administrative Region, Macao Special Administrative Region and Taiwan Region.

The information contained in this publication is for general guidance on matters of interest only and is not meant to be comprehensive. The application and impact of laws can vary widely based on the specific facts involved. Before taking any action, please ensure that you obtain advice specific to your circumstances from your usual PwC's client service team or your other tax advisers. The materials contained in this publication were assembled on 22 May 2020 and were based on the law enforceable and information available at that time.

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.

For more information, please contact:

Ma Long
+86 (10) 6533 3103
long.ma@cn.pwc.com

Please visit PwC's websites at http://www.pwccn.com (China Home) or http://www.pwchk.com (Hong Kong Home) for practical insights and professional solutions to current and emerging business issues.

www.pwccn.com