

Rödl & Partner

STRENGTHEN RELATIONS

Quick Check for CFOs in 2022:

Liquidity protection in times of the corona-virus pandemic



Your contact in China

Shanghai



QING CHENG
Partner

T +86 21 6163 5266
qing.cheng@roedl.com

Taicang



JOSCHKA BARDE
Associate Partner

T +86 512 5320 3176
joschka.barde@roedl.com

Beijing



KATHY CHEN
Associate Partner

T +86 10 8573 1319
kathy.chen@roedl.com

Quick Check for CFOs in 2022: Liquidity protection in times of the corona-virus pandemic

Further comprehensive tax reliefs to reduce the economic impact of the Corona pandemic

In order to strengthen China's industrial and service sectors, in response to the State Council meeting on 14 February 2022, the Ministry of Finance (MOF) and the State Administration of Taxation (STA) published various tax reliefs for small and medium-sized enterprises. The main measures are summarized below.

1. Corporate Income Tax (CIT), Value Added Tax (VAT) and Individual Income Tax (IIT) reliefs

Tax type	Target group	Tax relief or measure
CIT – Corporate Income Tax	Micro and small businesses	<p>From 1 January 2022 to 31 December 2024, enterprises with annual taxable profits between RMB 1 – 3 million will be entitled to an additional 50% reduction of the tax base.</p> <p>For the period from 1 January 2021 to 31 December 2022, qualifying enterprises with taxable profits below RMB 1 million were previously eligible for an 87.5% reduction of the tax base, and for taxable profits between RMB 1 – 3 million a 50% reduction applied, on which Corporate Income Tax is payable at a rate of 20%.</p> <p>The effective CIT rate for companies with taxable profits below RMB 1 million is thus 2.5% and for profits between RMB 1 – 3 million 5%.</p>
	Small and medium-sized enterprises (SMEs)	<p>Accelerated depreciation for equipment and devices (fixed assets) with an individual value of more than RMB 5 million (1 January to 31 December 2022).</p> <ul style="list-style-type: none"> – Equipment and devices with a minimum tax depreciation period of 3 years: one-time deduction of the entire amount. – Other equipment, tools and machinery with minimum tax depreciation period of 4 years, 5 years and 10 years: One-time deduction of 50%, the remaining 50% is depreciated over the prescribed remaining depreciation period.
	Technology-based SMEs	<p>Qualifying companies will be able to claim a super deduction of 200% of actual research and development (R&D) costs incurred from 1 January 2022.</p> <p>Previously, only manufacturing companies could claim the 200% super deduction for eligible R&D expenses.</p>
VAT – Value Added Tax	Small scale VAT payer	<p>The threshold for taxable transactions will be increased from RMB 100,000 to RMB 150,000 / month from 1 April 2021 to 31 December 2022.</p> <p>From 1 April 2022 to 31 December 2022, small scale VAT payers are exempt from VAT on taxable transactions at a rate of 3%. Likewise, the advance VAT payment for certain situations with a tax rate of 3% is suspended.</p>
	Micro and small businesses	<p>Depending on the size of the business, micro and small businesses can apply for a one-off refund of the remaining input tax credits in a lump sum, starting from the tax return in April 2022 or May 2022, as well as a refund of input tax credits on a monthly basis from the tax return in April 2022.</p>
	Companies in the manufacturing sector, technical research and services, software and information technology services, etc.	<p>Request a one-time refund of the remaining input tax credits in a lump sum, starting with the tax return in July or October 2022, as well as a refund of the input tax credits on a monthly basis starting with the tax return in April 2022.</p>

	Service companies	General VAT payers providing manufacturing and lifestyle services* can continue to receive an additional input tax deduction of 10% and 15% respectively until the end of 2022.
IIT – Individual Income Tax	Individuals	Individuals will be able to claim an additional special deduction of RMB 1,000 /month for each child under the age of 3 from 1 January 2022. Currently, the deduction for children aged 3 or over is RMB 1,000 per child / month.

* Production services include postal services, telecommunications services and modern services. Lifestyle services include cultural and sports services, education and medical services, tourism and entertainment services, catering and hotel services, etc.

The scope of reduction (up to 50%) granted by provincial governments on the „six taxes and two fees“ (including stamp duty and local surcharges), which previously applied only to small scale VAT payers, will be extended to qualifying small businesses with low profits from 1 January 2022 to 31 December 2024. Taxpayers will automatically benefit from the relevant reduction/exemption of taxes and fees by selecting their appropriate classification when declaring taxes.

2. Extension of payment deadlines

Extension of the deferral of payment of certain taxes and duties for small and medium-sized manufacturing enterprises:

- Payments for Q4 2021: Further deferral of payment by six months (original deferral of 3 months).
- Payments for 1st & 2nd quarter 2022: Deferral of payment by 6 months.

If the taxes were paid before the publication of the extension of the deferral, in order to also benefit from the deferral, a tax refund can be applied for

Target group	Types of taxes and levies	Percentage of deferral of payment of taxes and duties
Micro and small enterprises (less than RMB 20 million annual turnover)	CIT, domestic VAT, IIT and some of the local surcharges.	100%
Medium-sized enterprises (between 20 to 400 million RMB annual turnover)		50%

3. Our recommendation

Against the backdrop of the ongoing pandemic and its impact on China's economy, we recommend a detailed review of the eligibility and utilization of the recent tax reliefs. Prompt application of the tax reductions can maximize their benefits and help ease the strain on corporate liquidity.

Based on the characteristics of your business, we will review your company's situation and help determine the applicable measures to ensure the best possible utilization of the tax incentives.