China Business Advisory

2021 Issue 3 March 2021

TABLE OF CONTENTS

Small-scale Taxpayers VAT Threshold Raised Again

From 4th to 11th March 2021, the Fourth Session of the 13th National People's Congress (“NPC”) was held in Beijing. Premier Li Keqiang delivered the government work report ("The report") on behalf of the State Council at the regular meeting on 5th March. Among the priorities this year, the report announced that the Value-added Tax (“VAT”) threshold for small-scale taxpayers would be raised from RMB100,000 to RMB150,000 per month. For small- and micro- enterprises and individual industrial and commercial households, their annual taxable income under RMB1 million will be taxed with a further 50% reduction on the basis of the existing preferential policies.

The above preferential policies can be interpreted in two parts as follow:

1. According to the Caishui [2019] No. 13 and Guoshui Announcement No.4 in 2019, VAT small-scale taxpayers whose monthly sales is less than RMB100,000 (or quarterly sales is less than RMB300,000) are exempt from VAT. The threshold will now be raised to RMB150,000 to further boost small businesses.

2. According to Caishui [2019] No. 13, Corporate Income Tax ("CIT") is levied on annual taxable income of small- and micro- enterprises under RMB1 million at an effective rate of 5%, and that between RMB1 million and RMB3 million at 10%. With this new incentive, the effective tax rate on taxable income under RMB1 million would be cut to 2.5%, further relieving the tax burden of small businesses.

It is expected that these incentives would provide further help to small businesses for surviving and recovering in the context of the pandemic in 2021.

Preferential Rates for Unemployment and Work-related Injury Insurance

On 26th January 2021, the Ministry of Human Resources and Social Security ("MHRSS") held fourth quarter 2020 press conference, director-general of the department of pension insurance Nie Mingjun announced that since the influence of the COVID-19 outbreak has not been fully eliminated, the government will extend the incentive of reducing unemployment insurance and work injury insurance rates, which originally expire at the end of April 2021, to 30th April 2022 to ease financial pressure on businesses.

Since 1st January 2017, Shanghai had implemented a reduced (1%) rate on unemployment insurance tax (0.5% each for the employer and the employee). From 1st May 2018, the work injury insurance premium on the basis of the original benchmark rate is from 0.2% to 1.9% with eight sectors enjoying premium reduced by 50%, i.e. from 0.1% to 0.95%. The above two policies were valid until 30th April 2019.

In April 2019, Shanghai MHRSS issued the Shanghai People's Social Security Regulation [2019] No. 14, which continued to implement the rate of unemployment insurance and reduced the rate of work injury insurance by 20%, namely 0.16%-1.52%. and the applicable period was extended to 30th April 2020 followed by a further extension to 30th April 2021 in March 2020.

Every year, local governments will review the applicable local social security rates including the aforementioned ones according to the local situation, based on which adjustments could be made. In the speech, director-general Nie has announced that the above concessions will be extended for another year to 30th April 2022.

"Zero Tariff" for Self-use Production Equipment in Hainan Free Trade Port

On 24th February 2021, the Ministry of Finance, the General Administration of Customs and the State Taxation Administration jointly issued a circular - Caiguanshui [2021] No. 7, which introduced "zero tariff" policy on eligible production equipment imported by enterprises in Hainan Free Trade Port for own use with immediate effect.

According to the General Plan for the Construction of Hainan Free Trade Port (the "General Plan") issued by the Central Committee of the Communist Party of China and the State Council on 1st

June 2020, a tax system suitable for the free trade port will be gradually established in accordance with the designed principles of "zero tariff, low tax rates, lean tax system, strong rule of law to be introduced in phases".

Caiguanshui [2021] No. 7 cover the “zero tariff” policy as part of the initial measures and it is applicable to importation of self-used equipment excluding those that are stipulated by other laws and regulations as non-exempt from tariff or forbidden from import, and all items in the “negative list” attached to the circular. “Zero tariff” refers to exemption from tariff, VAT and consumption tax at importation.

It is worth noting that all the equipment with “zero tariff” is under customs supervision. When enterprises want to transfer the equipment to other parties, pre-approval from the customs authority is required and taxes at the import step may have to be paid supplementarily if the transferee is not an eligible entity.

Service Highlight

Since last year, a large number of enterprises have been facing serious challenges due to the COVID-19 epidemic. In order to help them come out of difficulties, the state has introduced a series of tax and fee reduction policies which have resulted in positive effects in the context of the gradual containment of COVID-19 in China this year. In order to help enterprises get on the right track as soon as possible, the government continues to support to enterprises particularly the small ones. We are committed to helping our clients understand and leverage all these measures to support their business as much as possible. For more enquiries, please call our marketing executive Miumiu Chan at (852) 3579 8745 or email to miumiuchan@sinobridge-consulting.com.

Our China Investment Business Advisory Team

Hong Kong
Room 1318, 13/F, Austin Tower, 22-26 Austin Avenue, Tsim Sha Tsui, Kowloon, Hong Kong

Guangzhou
Room 16A02, 16/F, Vili International, 167 Linhexilu, Tianhe District, Guangzhou, 510620, PRC

Shanghai
Room 30A, 30/F, World Plaza, No.855, South Pudong Road, Pudong New Area, Shanghai, PRC 200120

Website: www.sinobridge-consulting.com
E-mail: info@sinobridge-consulting.com
Telephone: (852) 3579 8745