



Impacts of Covid-19 on International Business in China: Legal and Tax Issues

Speakers



Pierre Wong, FCPA, CA

Managing Director

E: Pierre.Wong@integra-group.cn

T: +86 138 1650 2050

Pierre has over 20 years experience in external auditing, financial advisory and business consulting for foreign companies in China. Prior to joining the Firm, he served in management positions as Head of Shanghai in KCS (now TMF), China Finance Director of CB Richard Ellis, as well as the Senior Manager of KPMG Shanghai office. Pierre has provided practical accounting and business advices to foreign companies over his past 14 years in China.

Pierre holds a MBA from Edinburgh Business School and a Bachelor degree in Chartered Accountancy from University of Waterloo. He is both a member of the Canadian Chartered Accountant and a Fellow Member of the Hong Kong Institute of Certified Public Accountants (HKICPA).

He started his career with Mackenzie Financial, a well respected Mutual fund company in Toronto, Canada before moving to China in 2004.

He can speak fluent Mandarin, English and Cantonese.



Agenda

- Government Relief and Subsidy
- What should SME's do?



Government Relief and Subsidy

Government Relief and Subsidy

Value Added Tax (VAT)

- **VAT reduction** for micro, small and medium enterprises from **3%** to **1%** from March 1 to May 31, 2020. Some industries with difficulties (e.g. Life services, Transportation, and Courier services) are exempted from VAT effective January 1, 2020. The end date for the VAT exemption is to be announced at a later date.
 - **Life Service** include culture and sports services, education and medical services, tourism and entertainment services, catering and accommodation services, resident's daily services and other service activities to meet the daily needs of urban and rural residents.
 - **Transportation Services** includes ground transportation, maritime transportation, aviation, and management of transportation services.
 - **Courier Services** for providing the receiving and delivering the necessities of life to residents

Government Relief and Subsidy

Corporate Income Tax (CIT)

- The longest period of which an enterprise in **difficult industries** affected by the coronavirus may **carry forward a loss from 2020** has been increased from **5 years to 8 years**.
 - **Difficult industries** affected by the coronavirus **include transportation, catering and accommodation, and tourism** (referring to travel agencies and tourism scenic area management).

Personal and Corporate Income Tax

- Enterprises or individuals who **donate cash or items** to respond to the COVID-19 epidemic can **fully deduct** the amount from their corporate income tax or personal income tax if donated through the following channels;
 - A public welfare social organization (e.g. Red Cross) or
 - To hospitals undertaking epidemic prevention tasks or
 - The people's governments at or above the county level and their state agencies.

Government Relief and Subsidy

Social insurance

Policy	All companies in Hubei	Micro, small, and medium sized enterprises nationwide	Large companies nationwide	Companies experiencing severe difficulties in production and operation due to the epidemic
Exemption from paying pension, unemployment, and work injury insurance premiums.*	Yes, 100% from February to June.	Yes, 100% from February to June.	Yes, 50% from February to April.	N/A
Deferred payment of social insurance premiums of up to 6 months.	N/A	N/A	N/A	Yes
Enterprises which are only required to pay 50% of medical insurance premiums. Beginning in February lasting 5 months.*	Yes	Yes	Yes	N/A

* This refers to the employer portion of social insurance payments

Government Relief and Subsidy

Rent reduction

- For SMEs that rent real estate from SOEs and **stop production and operation** in accordance with government requirements or epidemic prevention regulations and **do not lay off employees** may apply for **exemption from rental** for February.
- A **50% reduction** in rent will be given for the **month of February** if the rent is for office purposes.
- For renting other business housing, the owners (landlords) are encouraged to reduce or exempt the rent for the tenants. For landlords who and reduce or exempt rent for the small, medium and micro enterprises during the epidemic period, can apply for a rent reduction stipend by the urban government.

Government Relief and Subsidy

Financing

- Government authorities at the local and municipal level have committed to increase credit for small and medium sized enterprise loans, reducing financing costs, broadening direct financing channels, and optimizing financial guarantee services.
- Applicable small and medium sized enterprise financial support vary between province, autonomous regions, and municipality as well as by commercial banks. **Speak with an accountant for advice on applicability.**

Government Subsidies

- Qualified enterprises **can apply for job stabilization subsidies** in accordance with regulations. You can only apply once a year and you can only enjoy one job stabilization subsidy policy each year. But local governments have different subsidy standards.
- Micro, Small and Medium Enterprises in the Zhongguancun area (Beijing) focusing on R&B are eligible for a maximum of **RMB 200K subsidy.**

Government Relief and Subsidy

Regional Policies

Regional Policies						
Policy	Shanghai		Beijing		Shenzhen	
Refund of employer portion of unemployment insurance premiums:	50%	12 months	100%	6 months	50%	12 months
Deferred tax payment for Small, medium and micro enterprises affected by the epidemic:	Yes, maximum length TBD.		Maximum 3 months		Maximum 3 months	
Social Insurance Premium subsidy:	N/A		Average no. of employees remained flat or increased 20%: 30% for 3 months Average no. of employees increased by 20% or more: 50% for 3 months		N/A	
Real estate tax and urban land use tax exemption:	N/A		N/A		3 months for enterprises in difficult industries	



What should SMEs do?



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Reducing Cost

- Maintain a **real-time understanding of epidemic prevention** and control information, make employee epidemic prevention arrangements, and encourage remote / online work
- Speak to under utilized staff on **adjusting wages, rotating shifts, shortening working hours** to contain costs
- Minimum wage or basic living expenses should be paid to staff if they are not able to work remotely from home.
- **Adopt flexible employment trends** – use part-timers or freelancers
- Conduct a company “Financial Health Check” - cut unnecessary costs or reducing the number of administrative staff and consider outsourcing the accounting and HR works

What should SMEs do?

Establish positive cashflow

- **Delaying payments** to suppliers and **accelerate the receivables** due from your customers (may consider to factor your receivables in supply chain industry)
- **Sale and leaseback** your fixed assets/machineries to refinance your cash flows
- **Improving innovation ability**, and constantly exploring and using new tools, methods and ideas. (E.g. Find some quick wins, products and services that can generate revenue fast)
- Promote products and services on social media such as WeChat, Tik Tok, and YouTube
- **Build brand awareness**: carry out webinars, share ideas and experiences specifically for your industry
- **Business expansion**: cheaper rents enable expansion and even hire good caliber to join the company to expand your business

What should SMEs do?

Develop contingencies

- **Capital injection** – for those companies not already top-up their registered capital consider injecting funding into the company. Make sure you already opened a capital account. For foreign companies, funding should come directly from overseas. Alternatively, money can be borrowed from the legal representative of the company with the necessary lending documents in place.
- **Look for financing** from others – Private equity or VC funds, or even from friends or families
- **Worst case scenario** –consider closing the business and making it dormant. Better stop losses then continue to operate if situation cannot be turned around. The business owner can resume operations at a later time if they so wish.

Integra Group

SHANGHAI

Unit 1211-1212, Enterprise Square
No. 228 Mei Yuan Road
Jing'an District, Shanghai, China

BEIJING

Suite 2636, 26/F, Tower D, Vantone Centre,
6 Chaoyangmenwai Avenue,
Chaoyang District, Beijing, China

www.integra-group.cn

Email: info@integra-group.cn

