

China Business Snippets • IIT, CIT and VAT Tax Relief for Self-Starters and SMEs

SMEs and start-ups can enjoy full and partial IIT, CIT and VAT exemptions as part of the Chinese Government incentives to help businesses.

There has been a few weeks of silence since 2020, but in 2021 China has started releasing gradual announcements as it tries to tend its local business operations while it waits for the rest of the world to go back to business as usual. While it waits, in Q1 of 2021, China saw a record 18.7% growth in a [recent AFP survey](#). At the same time, China is keeping [a close eye on its debt](#) by making key policies and investment projects go through fiscal endurance evaluations and making officials accountable for any debt that proves to be problematic in future.

With all this in mind, China has announced very beneficial tax reliefs, which aim to protect the self-employed and SMEs while continuing to achieve goals from its national agenda regarding R&D.

CIT and IIT Tax Relief for Self-Employed and SMEs

As part of the growing effort to protect the smaller business and business owners, operating in China during a slow global market economy, the announcement of tax exemptions for self-employed and SMEs was highly welcome.

From April 2021, all small businesses with a taxable income of less than RMB 1 million per annum can enjoy a tax exemption of half of their CIT, based on the calculations of the Caishui 2019 No.13. Calculation details that small and thin-profit enterprises are entitled to 25% of their taxable income below RMB 1 million. Only 50% of the taxable income if above RMB 1 to 3 million in income. The existing regulation provides that the first RMB 1 million is subject to 5% tax, and RMB 1-3 million is subject to 10%, and so now the first RMB 1 million is subject to only 2.5% tax.

Both SMEs and individuals can enjoy these benefits until the end of the 31st of December 2022. Other criteria to enjoy the tax relief include that the number of employees should be below 300 and the assets are no more than RMB 50 Million.

The rules are very beneficial. The only issue with it is that once a company goes above RMB 3 million, all of the profits revert to the full rate of 25%. Logically it would make sense for there to be a tapered approach, up to RMB 1 million rate, RMB 1-3 million rate, and then 25% for profits above RMB 3 million, but so far this has not been in place per the regulations.



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Recommendations

Essentially this is an extension of the current tax benefits, which are very welcome to those who have suffered, particularly in the catering and hospitality industry. These benefits are inclusive for any business as long as they remain below the income line; if the business generates more income, it will automatically tax in full.

China R&D Expense 100% Tax Deduction

China has been pushing hard to expand its technological and innovative abilities, especially in the area of R&D and has implemented new tax relief to entice more businesses to undertake R&D in China.

According to the public announcement from the 1st of January 2021, a manufacturing enterprise's expenses for its R&D activities can enjoy a 100% tax deduction on top of any other deductions applicable. However, if the expenses are converted into intangible assets, the expenses can enjoy a 200% tax reduction.

Recommendation

For a business that undertakes R&D, this incentive is to encourage business to undertake R&D in China as opposed to in other countries. The amended tax reduction essentially reduces tax from 75% to 100% and asset tax reduction from 175% to 200%. Businesses should seek proper assets inventory calculations to maximise their tax benefits and potentially explore reallocation funds.

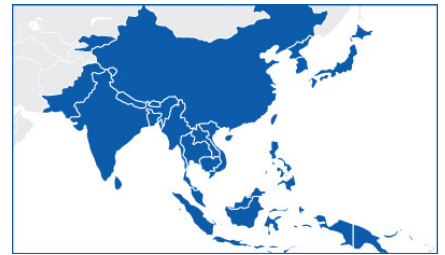
Small Taxpayer Full VAT Exemption

The benefits for the small taxpayers continue in the wave of tax relief announcements, this time covering small-scale taxpayers who generate an average of revenue of less than RMB 150,000 monthly, or RMB 450,000 per quarterly. If the small-scale taxpayers stay below those limits, they can enjoy VAT exemptions until the end of the 31st of December 2022.

Recommendations

Essentially the announcement, like the R&D tax exemptions, is increasing the threshold from RMB 100,000 to 150,000 in monthly revenue for small-scale taxpayers in order to bring in more micro businesses within the exemption.

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
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