

China Tax Alert

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Updates on China Social Security Policies during the Coronavirus Outbreak

Regulations discussed in this issue:

- The Announcement issued by the Ministry of Human Resources and Social Security on Administration of Chinese Social Security Contributions during the Period of Prevention and Containment of the Spread of Coronavirus Disease 2019 (Renshetingmingdian [2020] No. 7, hereinafter referred to as "Announcement No. 7").
- Related announcements issued by the local Social Security Bureau.

Since the start of 2020, people across China have been working together to fight against outbreak of Coronavirus Disease 2019 (COVID-19). On 30 January 2020, the Ministry of Human Resources and Social Security ("MHRSS") issued an announcement regarding the administration of Chinese social security contributions during the period of prevention and containment of the spread of COVID-19 (Renshetingmingdian [2020] No. 7, hereinafter referred to as "Announcement No. 7"), to ensure appropriate measures are stipulated by local Social Security Bureau ("SSB"). Several local SSBs also released their respective local practices for the administration of social security contributions in response to Announcement No. 7. In addition to Announcement No. 7, the Standing Committee of the State Council met on 18 February 2020 and decided to reduce or waive employer obligations on social security contributions for a specified period of time to ease the burden of enterprises during this difficult time.

Salient points

Announcement No. 7 is instrumental in providing local SSBs with a framework on administering social security contributions during the outbreak of COVID-19. In particular, allowing enterprises to make catch-up employer social security contributions within a period of 3 months following containment of COVID-19 outbreak without adversely impact the employee's rights to social security benefits.

The Standing Committee of the State Council also determined that it was appropriate to reduce or waive employer contributions to pension, unemployment and work-related injury insurance schemes for enterprises in the following areas:

- Hubei Province
Between February and June 2020: All enterprises enrolled in China Social Security Schemes are exempt from making employer contributions to pension, unemployment and work-related injury insurance schemes.
- Other Provinces & Cities (except Hubei)
Between February and June 2020: Micro, small and medium size enterprises are exempt from making employer contributions to pension, unemployment and work-related injury insurance schemes.

Between February and April 2020: Large enterprises may reduce employer contributions to pension, unemployment and work-related injury insurance schemes by 50%.

In addition, many local authorities have introduced policies in accordance with outbreak situation in the respective city/province in order to support local enterprises during the outbreak. The following table outlines some of the local policies announced to date.

| Local policies | Province/City |
|--|---|
| Deferring adjustment to social security contribution base | Shanghai, Sichuan |
| Adjusting employer contribution rate for certain social security schemes | Shanghai, Guangzhou, Sichuan |
| Payment extension on employer social security contribution | Nanjing, Suzhou, Xiamen, Chengdu, Qingdao |

Relevant details are as follows:

- **Deferring adjustment to social security contribution base**

| Province/City | Adjustment to social security contribution base |
|---------------|---|
| Shanghai | Will be deferred for 3 months and adjusted on 1 July 2020 (instead of 1 April 2020) |
| Sichuan | Pension contribution base for year 2020 remains the same as that for year 2019 |

- **Adjusting employer contribution rate for certain social security schemes**

Reduce the rates of social security contributions for employer will have a direct impact on the cost of employment. Before the periodical reduction or exemption of the employer's contributions to social security schemes by the Standing Committee of the State Council, some local governments have announced the relevant policies, including:

| Province/City | Reduced contribution rate | | | |
|---------------|-----------------------------|----------------------------|--|---------|
| | Medical | Work-related injury | Unemployment | Pension |
| Shanghai | Reduce by 0.5% ¹ | | | |
| Guangzhou | | Reduce by 50% ² | Reduce the coefficient from 0.6 to 0.4 or from 0.8 to 0.6 ³ | |

¹ Reduced rate of employer contribution to medical insurance temporarily by 0.5% for 2020.

² The rate of work-related injury insurance is reduced by 50% until 30 April 2021.

³ Adjustment on the rates of unemployment insurance until the end of December 2020.

| Province/ City | Reduced contribution rate | | | |
|-------------------|---------------------------|--|-----------------|--------------------------|
| | Medical | Work-related injury | Unemployment | Pension |
| Sichuan | | Reduce by 20% or 50%; No increase for enterprises which are otherwise subject to increment ⁴ | 1% ⁵ | Decrease from 19% to 16% |

- **Payment extension on employer social security contributions**

| Payment extension | Province/City |
|--|--|
| Maximum extension of 6 months ⁶ | Nanjing, Suzhou, Xiamen, Chengdu, Qingdao |
| Maximum extension of 1 year ⁷ | Qingdao (except for medical insurance which can be extended for 6 months at maximum) |

Furthermore, in some cities, such as Shenzhen, Changsha, Xi'an, restrictions on applying for refund of unemployment insurance have been relaxed to lessen the burden of enterprises. Zhejiang Province also announced to refund of 1 to 3 months' employer social security contributions to enterprises based on the specific situation of each location within the province.

KPMG Observation

Announcement No. 7 along with the decision of the Standing Committee of the State Council on administration of social security contributions during their meeting on 18 February 2020 emphasize the importance of stipulating appropriate measures to administer social security contributions during the COVID-19 outbreak, in order to facilitate extension of contribution payments and reduction/waiver of the employer contributions to social security schemes to ease enterprises' cashflow constraints. Many local authorities and SSBs also announced additional policies to alleviate the burden of enterprise.

We recommend enterprises to ascertain applicable policies proactively and timely, as well as analyse the relevant implications and procedures in order to enjoy the relevant relief.

⁴ The rate of work-related injury insurance shall be reduced by 20% or 50% respectively on the basis of the actual rate before the periodically reduction in 2018 for the enterprise with accumulative balance of work-related injury insurance fund ranging from 18 (inclusive) to 23 months and above 24 months (inclusive). For the enterprises whose rate of work-related injury insurance shall be increased under floating rate policy, the rate will not be increased for now.

⁵ The reduced social security contribution rate will be implemented until 30 April 2020.

⁶ Due to the Coronavirus epidemic, enterprises that have difficulties in regular production and operation and are unable to pay the social insurance premium temporarily can apply for an extension, which is subject to approval for the maximum of 6 months. During the extension period, the surcharge will not be imposed.

⁷ Due to the Coronavirus epidemic, enterprises that are unable to pay the minimum wage of the employees or unable to operate normally for more than 3 months and only pay the living expense for the employees may apply for an extension of not more than one year.

KPMG will pay close attention to the latest tax and social security policies and announcements. We also welcome companies and individuals to contact us for the latest information and practices.

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