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Enterprise income tax (“EIT”) preferential treatment for Small low-profit enterprise

On March 14, 2022, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) made a joint announcement concerning “*further implementation of preferential EIT policies for Small low-profit enterprise*”, i.e. SAT Bulletin [2022] No. 13. This is expected to continue easing off their tax burden to a certain extent allowing them to save more cost, thus, make more profit.

The criteria of determining Small low-profit enterprise:

The following requirements should be all met for Small low-profit enterprise:

- i) engaged in business activities not restricted or prohibited by the PRC government,
- ii) annual taxable income is no more than RMB 3 million,
- iii) employees are no more than 300, and
- iv) total assets amount is no more than RMB 50 million

Please kindly note the followings:

- i) employees refer to staff who have established employment relationship with the enterprise and labour secondment staff accepted by the enterprise;
- ii) the number of employees and the total assets shall be determined according to the enterprise's quarterly average value throughout the year. The specific computation formula shall be as follows:

◆ Quarterly average value= (value at the beginning of quarter + value at the end of quarter) ÷ 2

◆ Quarterly average value throughout the year=sum of all quarterly average values throughout the year ÷ 4

EIT preferential treatment:

Based on EIT law, the EIT rate for Small low-profit enterprise is 20% instead of 25% (normal EIT rate), however, the additional following tax incentives are applied to promote the business of Small low-profit enterprise:

Annual taxable income small low-profit enterprise	Effective EIT rate Jan 1, 2022 – Dec 31, 2022	Effective EIT rate Jan 1, 2023 – Dec 31, 2024
The portion of amount no more than RMB 1 million	2.5% (i.e. 12.5% annual taxable income *20%)	No more than 5% , but not yet issued
The portion of amount between RMB 1 million and 3 million	5% (i.e. 25% annual taxable income * 20%)	

Our recommendation:

Considering the continuing EIT preferential treatment for Small low-profit enterprise, it is suggested to review the criteria of the company to see whether such preferential treatment could be applied.

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