



## Accounting & Outsourcing Newsletter - Fresh measures ensure timely payments to SMEs starting from September 1, 2020

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China enforced new regulations on ensuring timely payments to small and medium-sized enterprises (SMEs) starting from Sept 1, 2020.

The State Council announced the regulations in a bid to safeguard legitimate rights and interests of SMEs and improve the business environment.

The regulations ban government departments, public institutions and large enterprises from defaulting on payments to SMEs in any disguised form, or forcing unfair payment terms upon SMEs in contracts.

To curb unfair practices, China will standardize contract signing and set up mechanisms for payment information disclosure, complaint handling, as well as supervision and evaluation, according to the regulations.

The officials noted that the regulation also introduced provisions in terms of payment deadlines, payment information disclosure and complaint handling, stressing that the regulation will help boost the SMEs' confidence in development.

The following are key takeaways from the regulation.

## **01. Definition of SMEs**

The enclosed regulation defines SMEs as medium, small and micro-sized enterprises lawfully established in China and meeting the criteria approved by the State Council. SMEs should voluntarily mention such designation when they sign a contract with any government departments, public institutions or large enterprises.

## **02. Payment period**

For government departments and public institutions that procure goods, engineering and services from SMEs, payments should be made within 30 days, or at most within 60 days if otherwise specified in the contract, upon the delivery date.

For large enterprises carrying out similar dealings, the payment period should be reasonably set and comply with industry practices and trading habits, with a requirement of on-time payments.

## **03. No forcing SMES to receive non-cash payments**

Government departments, public institutions and large enterprises should not force SMEs into receiving non-cash payments such as commercial bills, and should not extend the payment period in disguise through such instruments.

## **04. Pay interest after default**

In the event of a delay in paying SMEs, government departments, public institutions and large enterprises should provide interest on the late amounts. The interest rate, if set by contractual parties, should be no lower than the one-year loan prime rate at the contract execution time, or if not agreed upon thereby, should be equal to 0.05 percent on a daily basis.

## **05. Make late payments public**

Government departments and public institutions should disclose information before March 31 each year about amounts due and payable to SMEs in the previous year; large enterprises should include information on unpaid overdue debts to SMEs in their annual corporate report and publish it.

## **06. Penalties for violations**

In the case of serious violations of obligations to pay their debts to SMEs in a timely manner, government departments, public institutions and large enterprises should be subject to legal punishments, with related data incorporated into the national credit information sharing platform.

## **07. Restriction measures against payment refusal or delay**

Government departments and public institutions refusing or delaying payments to SMEs will face necessary restrictions over spending and house occupancy for official duties, fund allocation, among others.

## **08. Support SMEs in receivables-backed financing**

Government departments, public institutions and large enterprises should back SMEs seeking to raise funds through accounts receivable, and confirm the debtor-creditor relationship within 30 days after a request for confirmation is made by the SMEs.

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