China Tax & Investment Express (CTIE)* brings you the latest tax and business announcements on a weekly basis. CTIE provides a synopsis of each announcement including a link that leads you to the full content of the announcement (in Chinese). Please feel free to contact your EY client service professionals for further assistance if you find the announcements have an impact on your business operations.

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Tax circulars

- **Notice regarding administrative measures on import-level tax policies supporting scientific and technological innovation (Caiguanshui [2016] No.71)**

**Synopsis**

The Ministry of Finance (MOF), State Administration of Taxation (SAT) and General Administration of Customs (GAC) jointly released Caiguanshui [2016] No. 70 (“Circular 70”) on 27 December 2016 to provide preferential policies for promoting the scientific and technological innovation during the 13th Five-year Plan Period. According to Circular 70, from 1 January 2016 to 31 December 2020, qualifying science institutions, research and development (R&D) institutions and schools as prescribed in Circular 70 shall be exempt from import duties and import-level Value-added Tax (VAT) and Consumption Tax (CT) for importation of appliance, apparatus and equipment which are necessary for scientific, technological research and education purposes but cannot be manufactured in China. Importation of books and materials for technological research and education purposes by qualifying publication entities for science institutions, R&D institutions and schools are also exempt from import-level VAT. (Please refer to CTIE2017001 for details of Circular 70.)
In order to further clarify administrative matters related to the abovementioned tax incentives, on 14 January 2017, ten Chinese government departments jointly released “Administrative Measures on Import-level Tax Policies Supporting Scientific and Technological Innovation”, i.e., Caiguanshui [2016] No. 71 (“Circular 71”) to provide administrative regulations with respect to import-level tax incentives for various research institutions, institutions of higher learning, enterprise technology centers, etc. In the meantime, three detailed administrative measures on import-level tax exemption for technological non-governmental not-for-profit units (TNGNPU), national public technological service demonstration platforms for small and medium enterprises (NPTSDP for SMEs) and foreign-funded R&D centers (FIE R&D Centers) are released respectively.

For your easier reference, we summarized the major contents of the abovementioned three administrative measures in the following table:

<table>
<thead>
<tr>
<th>Items</th>
<th>TNGNPU</th>
<th>NPTSDP for SMEs</th>
<th>FIE R&amp;D Centers</th>
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<tbody>
<tr>
<td>Recognition Criteria²</td>
<td>► NGNPUs set up with the Ministry of Civil Affairs (MCA) or the Civil Affairs Departments at certain levels with legal status in accordance with the Provisional Rules on the registration and administration of NGNPUs and the Provisional Measures on the registration of NGNPUs&lt;br&gt;► Total assets not less than RMB3 million&lt;br&gt;► More than 20 professional technical staff which account for at least 60% of its total headcount should graduate with an associate degree or with intermediate or higher professional title&lt;br&gt;► Part-time technical staff should not exceed 25% of total technical staff</td>
<td>► NPTSDPs for SMEs recognized by the MIIT&lt;br&gt;► Total assets not less than RMB10 million&lt;br&gt;► Accumulated amount of purchased equipment (original value of domestic and imported equipment) not less than RMB3 million&lt;br&gt;► With good service qualification and performance, serve at least 150 SMEs annually and achieve over 90% user satisfaction&lt;br&gt;► Have a certain reputation and brand influence in the field of professional services</td>
<td>For FIE R&amp;D Centers established prior to 30 September 2009 (inclusive), all of the following criteria shall be met:&lt;br&gt;► Minimum threshold of R&amp;D expenditures:&lt;br&gt;► For independent legal entities, total investments shall be not less than USD5 million&lt;br&gt;► For non-independent legal entities, such as companies’ internal departments or branches, total investments in R&amp;D shall be not less than USD5 million&lt;br&gt;► Annual R&amp;D expenditures shall be not less than RMB10 million&lt;br&gt;► Full-time R&amp;D personnel not less than 90&lt;br&gt;► Accumulated original value of equipment purchased since the establishment not less than RMB10 million&lt;br&gt;For FIE R&amp;D Centers established after 30 September 2009, all of the following criteria shall be met:&lt;br&gt;► Minimum threshold of R&amp;D expenditures:&lt;br&gt;► For independent legal entities, total investments shall be not less than USD8 million&lt;br&gt;► For non-independent legal entities, such as companies’ internal departments or branches, total investments in R&amp;D shall be not less than USD8 million&lt;br&gt;► Full-time R&amp;D personnel not less than 150&lt;br&gt;► Accumulated original value of equipment purchased since the establishment not less than RMB20 million</td>
</tr>
</tbody>
</table>
In addition to the above contents, Circular 71 provides brief provisions for the recognition of qualifying research institutions, institutions of higher learning, enterprises technology centers, etc. Furthermore, the scope of qualifying publication entities and the relevant scope of tax-exempt imported production materials are clarified in Circular 71.

The relevant entities shall carefully read Circular 71 and assess their eligibilities to the prescribed preferential import-level tax treatments.

1 The ten Chinese government departments include the MOF, Ministry of Education, National Development and Reform Commission, Ministry of Science and Technology, Ministry of Industry and Information Technology (MIIT), Ministry of Civil Affairs, Ministry of Commerce, GAC, SAT and State Administration of Press, Publication, Radio, Film and Television.

2 Recognition criteria shall be met simultaneously.

3 Civil Affairs Departments at certain levels refer to Civil Affairs Departments of various provinces, autonomous regions, municipalities directly under the Central Government, cities specifically designated in the state plan and Xinjiang Production and Construction Corps.

4 Commerce departments at certain levels refer to commerce departments of various provinces, autonomous regions, municipalities directly under the Central Government, cities specifically designated in the state plan and Xinjiang Production and Construction Corps.

5 Caiguanshi [2016] No. 72, i.e., Notice regarding a list of production materials imported for scientific research, technology development and education eligible for the exemption of import duties, import-level VAT and CT

6 Source: Guokefazheng [2013] No.52 http://www.most.gov.cn/tztg/201302/t20130226_99778.htm

You can click this link to access the full content of Circular 71: http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201702/t20170223_2540966.html

You can click this link to access the full content of Circular 70: http://www.mof.gov.cn/pub/guanshuisi/zhengwuxinxi/zhengcefabu/201612/t20161229_2508627.html

You can click this link to access the full content of Circular 72: http://gss.mof.gov.cn/zhengwuxinxi/zhengcefabu/201701/t20170104_2514539.html
Public notice (PN) regarding matters related to the pilot run of allowing small-scale VAT taxpayers engaging in the attestation and consulting services to issue special VAT invoices by themselves (SAT PN [2017] No.4)

Synopsis

Upon the final stage of VAT pilot arrangements that include the lodging industry, the SAT released SAT PN [2016] No. 44 (“PN 44”) to launch a pilot run from 1 August 2016, which shall allow small-scale VAT taxpayers engaging in the lodging industry to issue special VAT invoices by themselves in 91 cities (“the pilot”). Subsequently in November 2016, the SAT further announced SAT PN [2016] No. 69 (“PN 69”) to expand the aforementioned pilot to cover all small-scale VAT taxpayers engaging in the lodging industry nationwide. So far, the pilot has greatly shortened taxpayers’ time in handling invoice-related matters and therefore reduced the relevant compliance burdens. (Please refer to CTIE2016028 and CTIE2016045 for details of PN 44 and PN 69 respectively.)

In order to further facilitate the issuance of special VAT invoices and to ease the administrative burden of tax authorities in issuing invoices on taxpayers’ behalves, on 22 February 2017, the SAT released SAT PN [2017] No. 4 (“PN 4”), to expand the pilot to cover small-scale VAT taxpayers engaging in attestation and consulting services on a nationwide basis from 1 March 2017.

According to PN 4, small-scale VAT taxpayers engaging in attestation and consulting services with their monthly sales revenue over RMB30,000 or quarterly sales revenue over RMB90,000 are allowed to issue special VAT invoices themselves for the provision of certification, attestation or consulting services, sales of goods or other services subject to VAT (except for sales of immovable assets).

For the special VAT invoices issued by the small-scale VAT taxpayers, such taxpayers should complete the VAT returns and fill in the turnover indicated on those invoices issued within the prescribed VAT filing deadlines, at the collection rates of 3% (for provision of attestation and consulting services or sales of goods) or 5% (for income derived from lease of real properties). The data should be entered into the data fields of columns of “VAT-exclusive turnover that the supervising tax authorities have issued special VAT invoices on behalf of the taxpayers” (税务机关代开的增值税专用发票不含税销售额) in the VAT returns for small-scale VAT taxpayers, even if they indeed issue invoices by themselves.

Small-scale VAT taxpayers engaging in attestation and consulting services are strongly recommended to closely follow any further notifications from their supervising tax authorities so as to fully utilize the abovementioned policies.

You can click this link to access the full content of PN 4:
http://www.chinatax.gov.cn/n810341/n810755/c2493676/content.html

You can click this link to access the full content of the Interpretation of PN 4 from the SAT:
http://www.chinatax.gov.cn/n810341/n810760/c2493361/content.html

You can click this link to access the full content of PN 44:
http://www.chinatax.gov.cn/n810341/n810755/c2208831/content.html

You can click this link to access the full content of PN 69:
http://www.chinatax.gov.cn/n810341/n810755/c2366780/content.html
Notice regarding issues related to the foreign exchange risk management of foreign institutional investors investing in the inter-bank bond market (Huifa [2017] No.5)

Synopsis

To further promote the opening up of the domestic bond market and foreign exchange market, on 24 February 2017, the State Administration of Foreign Exchange released Huifa [2017] No. 5 (“Circular 5”) to clarify issues related to the foreign exchange risk management of foreign institutional investors (FIIs) investing in the inter-bank bond market.

Key features of Circular 5 are as follows:

► FIIs in the inter-bank bond market may carry out RMB/foreign exchange derivative businesses in qualifying domestic financial institutions. The RMB/foreign exchange derivative businesses include forwards, foreign-exchange swaps, currency swaps and options as prescribed in circular Huifa [2014] No. 53 (“Circular 53”). (Please refer to CTIE2015002 for details of Circular 53.)

► FIIs engaging in RMB/foreign exchange derivative businesses shall adhere to the principle of genuine needs (实需原则). The RMB/foreign exchange derivative transactions shall only be conducted to hedge the foreign exchange risk exposure triggered by investments in the inter-bank bond market with funds remitted overseas.

► Diversified instruments and flexible mechanisms are provided to facilitate FIIs’ RMB/foreign exchange derivative businesses.

Circular 5 became effective on its promulgation date, i.e., 24 February 2017. In case of any conflicts between Circular 5 and any earlier released foreign exchange regulations, Circular 5 shall prevail.

You can click this link to access the full content of Circular 5:
http://www.safe.gov.cn/wps/portal/lut/p/c5/04_S8B8K8xLLM9MSSzPy8x8z9CP0os3gPZxdnX293QwML7zALAO9P02Bnr18v12c_E_1wkA6zeGd3Rw8Tcx8DAwsTdwMTxMnfz8P50BDA09jjLwBDuBooO_nkZ-bql-QnZ3m6KioCACK6Xh-/dl3/d3/L2dljQSEvUUt3QS9ZQnZ3Lz7ZfSENEQ01LRzEwODRJQzBJSUpRRUpKSDEySTI/?WCM_GLOBAL_EXT=/wps/wcm/connect/safe_web_store/safe_web/zcfg/whscyrmbhn/node_zcfg_whjy_store/2dac8f804039387a8470849bf511075d

You can click this link to access the full content of Circular 53:
http://www.fdi.gov.cn/1800000121_23_72026_0_7.html

There is no other business, customs and tax related circulars announced by central government authorities in the past week.
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