

Issue No. 2021005

5 February 2021

China Tax Center

China Tax &

Investment

Express

*China Tax & Investment Express (CTIE)** brings you the latest tax and business announcements on a weekly basis. We selected some comparatively key announcements to provide for a synopsis and we also provide a link that leads you to the full content of each latest 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.

CTIE does not replace our *China Tax & Investment News** which will continue to be prepared and distributed to provide more in-depth analyses of topical tax and business developments in China.

*If you wish to access the previous issues of CTIE and *China Tax & Investment News*, please contact us.

Business circulars

- **Catalog of Encouraged Industries in the Western Regions (2020 Version) (NDRC Order [2021] No. 40)**

Synopsis

On 18 January 2021, the National Development and Reform Commission (NDRC) officially released the Catalog of Encouraged Industries in the Western Regions¹ (2020 Version) (hereinafter referred to as the "2020 Catalog") which was lately passed by the NDRC and approved by the State Council and shall become effective on 1 March 2021. The prevailing catalog that was released in 2014 shall become abolished at the same time.

The scope of the 2020 Catalogue

Same as that of the prevailing catalog, the 2020 Catalogue contains two parts:

- ▶ The prevailing encouraged industries in the existing national industrial catalogues, i.e., the Guiding Catalogue of Industrial Structure Adjustment (2019 Version) released via NDRC Order [2019] No. 29 and the Catalogues of Encouraged Industries for Foreign Investments (2020 Version) released via NDRC/MOFCOM Order [2020] No. 38; and
- ▶ The newly added encouraged industries for 12 provinces, autonomous regions and the directly governed city (hereinafter referred to as the “areas”) in western regions, except for those that are listed as restricted, obsoleted or prohibited in other relevant catalogues.

The preferential tax policy for qualifying enterprises in the western regions

According to MOF PN [2020] No. 23 (“PN 23”, i.e., Public notice (PN) regarding the extension of Corporate Income Tax (CIT) policy for the development of the western regions), from 1 January 2021 to 31 December 2030, enterprises in the western regions, which are engaging in the encouraged industries as indicated in the Catalog of the Encouraged Industries of the Western Regions and derive 60% of their income from the encouraged industries, are subject to CIT at a reduced rate of 15%.

Major changes in the 2020 Catalogue

- ▶ Further support scientific and technological innovation in the west regions

Some new industry items such as research and development (R&D) and production of high-end chips, R&D and production of Computer Numeric Control (CNC) machines, and the manufacturing of hydrogen fuel cells are added for some western provinces in the 2020 Catalog to support the development of strategic emerging industries such as electronic information, equipment manufacturing and new energy in the western regions.

- ▶ Further promote the orderly transfer of industries to the west

Some new industry items such as automobile and parts manufacturing, intelligent and green processing of textile and garment, household appliances and consumer electronics manufacturing are added for some western provinces in the 2020 Catalog to promote the optimization and upgrading of the industrial structure in the western regions.

- ▶ Further encourage the western regions to better leverage distinctive advantages

Some new industry items such as agriculture, forestry, animal husbandry and fishery, energy and resources, healthcare tourism, border trade and processing are added for some western provinces in the 2020 Catalog to create economic value to the resource and location advantages of the western regions.

- ▶ Further support the western regions in overcoming weaknesses

Some new industry items such as energy conservation and environmental protection, circular economy, livable region construction, comprehensive utilization of resources, light industry and textile, and characteristic handicrafts are added for some western provinces in the 2020 Catalog.

Measures in implementation

Where it is difficult to accurately determine whether the main business of an enterprise falls within the scope of the encouraged industries according to the 2020 Catalog, tax authorities can request relevant departments under the NDRC to provide opinions. In cases that the conditions prescribed by the preferential tax policies are not met, tax authorities shall handle in accordance with the Law of Tax Collection and Administration and relevant regulations.

Enterprises and investors that have business or investment plans in the western regions are advised to read the 2020 Catalog for more details so as to fully utilize the benefits offered. If in doubt, consultations with professionals are always recommended.

¹ Western regions as prescribed in the 2020 Catalog refer to Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Xizang Autonomous Region, Shaanxi Province, Gansu Province, Qinghai Province, Ningxia Hui Autonomous Region, Xinjiang Uygur Autonomous Region and the Xinjiang Production and Construction Corps, the Inner Mongolia Autonomous Region, and Guangxi Zhuang Autonomous Region. In addition, policies related to the encouraged industries in the western regions are also applied to that of Xiangxi Tujiazu and Miaoizu Autonomous Prefecture of Hunan Province, Enshi Tujia and Miao Autonomous Prefecture of Hubei Province, Yanbian Chaoxian Autonomous Prefecture of Jilin Province, Ganzhou of Jiangxi Province.

You can click this link to access the full content of the 2020 Catalog:
www.ndrc.gov.cn/xxgk/zcfb/fzggwl//202101/t20210126_1265895.html

You can click this link to access the full content of PN 23:
http://szs.mof.gov.cn/zhengcefabu/202004/t20200426_3504576.htm

► **Notice regarding the "Catalog of Encouraged Industries in Hainan Free Trade Port (2020 Version)" (Fagaidiqugui [2021] No. 120)**

Synopsis

According to Caishui [2020] No. 31 ("Circular 31", i.e., Notice regarding the Corporate Income Tax (CIT) preferential policies for enterprises in Hainan Free Trade Port (FTP)), enterprises registered in Hainan FTP and engaged in substantial business in encouraged industries in Hainan FTP shall be subject to a reduced CIT rate of 15%. On 27 January 2021, the NDRC, Ministry and Finance and State Taxation Administration jointly released the Catalog of Encouraged Industries in Hainan FTP (2020 Version) (hereinafter referred to as the "Hainan Catalogue") via Fagaidiqugui [2021] No. 120.

Key features of the Hainan Catalogue are as follows:

- The Hainan Catalogue contains two parts, i.e., encouraged industries in existing national industrial catalogues (i.e., the Guiding Catalogs of Industrial Structure Adjustment (2019 Version) and the Catalogues of Encouraged Industries for Foreign Investments (2019 Version)) and Catalogue of Newly Added Encouraged Industries for Hainan (hereinafter referred to as the "Hainan Catalog of Newly Added Encouraged Industries").
- The Hainan Catalog of Newly Added Encouraged Industries covers 143 industries of 14 sectors (i.e., information transmission, software and information technology services, finance, accommodation and catering, etc.) Among those, several items of the three key industries (i.e., modern services, high-tech industries and tourism) are also included in the Hainan Catalog of Newly Added Encouraged Industries, which include the following:
 - Exhibition services, quality inspection services, as well as shipping related finance services under the modern services;
 - Manufacturing of new energy vehicles, development and the business applications of 5G and 6G technology under the high-tech industries;
 - Hotels, bed and breakfast and country inns under the tourism services.
- On the other hand, items of industries with Hainan characteristics, such as development and manufacturing of marine renewable energy equipment under ocean development, deep processing of tropical agricultural and forestry products under tropical agriculture, etc. are also included in the Hainan Catalog of Newly Added Encouraged Industries.

The Hainan Catalog took retroactive effect on 1 January 2020 and shall be implemented until 31 December 2024. The scope of the Hainan Catalog of Newly Added Encouraged Industries shall also be subject to dynamic adjustments. Also, should the relevant government authorities make any adjustments to the items covered in the national industrial catalogues during the validity of the Hainan Catalogue, the amended Catalogs shall prevail from their effective dates.

Enterprises that intend to adopt the reduced CIT rate as prescribed in Circular 31 are suggested to perform a self-evaluation to assess whether they are qualified before they apply the preferential treatment in the annual CIT filing. Supporting documents are also required to be maintained for tax authorities' future examination. It is worth noting that if any disqualifications or incompliance of above-mentioned requirements were found in tax authorities' follow-up examinations, the taxpayers need to repay the underpaid CIT as well as any related penalty and surcharges. As such, taxpayers are recommended to reach out to tax professionals if in doubt.

You can click this link to access the full content of the Hainan Catalogue:
https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj/202101/t20210129_1266472.html

You can click this link to access the full content of Circular 31:
http://szs.mof.gov.cn/zhengcefabu/202006/t20200630_3540842.htm

► **Notice regarding implementing the "Agreement on Social Security between the Government of the People's Republic of China (PRC) and the Government of the Republic of Serbia" (Renshetingfa [2021] No. 5)**

Synopsis

On 21 January 2021, the General Office of the Ministry of Human Resources and Social Security (MOHRSS) released Renshetingfa [2021] No. 5 ("Circular 5") to announce that the "Agreement on Social Security between the Government of the PRC and the Government of the Republic of Serbia" (hereinafter referred to as the "PRC-Serbia SSA") that was signed on 8 June 2018 and its Administrative Agreement which was signed on 6 January 2020 shall become effective on 1 February 2021.

Key features of the PRC-Serbia SSA and its Administrative Agreement are as follows:

Items	Provisions in the PRC-Serbia SSA
Scope of reciprocal exemption for insurance	<ul style="list-style-type: none">► PRC: basic pension for employees and unemployment insurance► Serbia: mandatory pension and disability insurance, unemployment insurance
Personnel entitled to exemption	<ul style="list-style-type: none">► Posted person► Employee on board of aircrafts► Diplomatic and consular personnel► Civil servants and persons treated as such► Exceptions
Exemption period	Entitled personnel may apply for the exemption from social security contributions for the first time for a maximum period of 60 calendar months and may apply for an extension of 24 calendar months after that.
Miscellaneous provisions	<p>Circular 5 also stipulated detailed procedures for the following applications:</p> <ul style="list-style-type: none">► Application for the Certificate on Applicable Legislation (法律适用证明) for the PRC nationals working in Serbia► Application for exemption of PRC basic pension for employees and unemployment insurance by nationals of Serbia working in the PRC
Effective date	1 February 2021

Human resources (HR) personnel of the PRC enterprises that dispatch their employees to work in Serbia or have nationals of Serbia working in the PRC under secondment agreements, should study Circular 5 and complete required applications for the relevant personnel in a timely manner. HR personnel should also note that, except for the basic pension for employees and unemployment insurance, nationals of Serbia working in the PRC are still required to participate in other types of PRC social securities (i.e., basic medical insurance, work-related injury insurance and maternity insurance) as prescribed in the PRC Social Security Law and MOHRSS Order [2011] No. 16 ("Order 16", i.e., Provisional Measures for Foreigners Contributing to Social Security in the PRC). If in doubt, consultations with professionals are always helpful.

You can click this link to access the full content of Circular 5, the PRC-Serbia SSA and its Administrative Agreement:

http://www.mohrss.gov.cn/xxgk2020/fdzdgknr/zcfg/gfxwj/202101/t20210125_408285.html

You can click this link to access the full content of the PRC Social Security Law:

http://www.gov.cn/flfg/2010-10/28/content_1732964.htm

You can click this link to access the full content of Order 16:

http://www.mohrss.gov.cn/SYrlzyhshbzb/zcfg/flfg/gz/201601/t20160112_231574.html

Customs circular

- ▶ **PN regarding certain matters related to the implementation of the "Catalogues of Encouraged Industries for Foreign Investments (2020 Version)" (GAC PN [2021] No. 9)**

Synopsis

On 26 January 2021, the General Administration of Customs (GAC) announced GAC PN [2021] No. 9 ("PN 9") to specify matters related to the enforcement of the Catalogues of Encouraged Industries for Foreign Investments (2020 Version) (hereinafter referred to as the "2020 Foreign Investment Catalogues") from customs perspectives.

According to PN 9, from 27 January 2021, importation of self-used equipment together with the accompanying technology, parts and components (i.e. within the total amount of investments of the same foreign-invested projects, including situations of capital increase) listed in the 2020 Foreign Investment Catalogues (except for those listed in the Catalogue of Imported Commodities of Foreign-invested Projects Not Entitled to Duties Exemption or the Catalogue of Imported Key Technological Equipment and Products Not Entitled to Duties Exemption) is exempt from Custom Duty, but the importation is still subject to import-level Value-added Tax in accordance with relevant regulations.

PN 9 also specified certain transitional arrangements upon the effectiveness of the 2020 Foreign Investment Catalogues. PN 9 became effective on 27 January 2021. Concerned enterprises are encouraged to observe the requirements laid out in PN 9 and act accordingly. If in doubt, consultations with professionals are always helpful.

You can click this link to access the full content of PN 9:

<http://www.customs.gov.cn/customs/302249/2480148/3526380/index.html>

You can click this link to access the full content of the 2020 Foreign Investment Catalogues:

<http://wzs.mofcom.gov.cn/article/n/202012/20201203026619.shtml>

Other tax, business and customs related circulars publicly announced by central government authorities in the past week:

- ▶ **PN regarding matters related to the collection standard of risk reserve for oil price control in the fourth quarter of 2020 (STA PN [2021] No. 1)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5161157/content.html>
- ▶ **Notice regarding the "Guidelines for Foreign Exchange Business under Capital Accounts (2020 Version)" (Huizongfa [2020] No. 89)**
<http://www.safe.gov.cn/safe/2021/0122/18098.html>

- ▶ **Decision on establishing the Beijing Financial Court**
<http://www.npc.gov.cn/npc/c30834/202101/51ce8706d4cd435783f4eb8b62ed6702.shtml>
- ▶ **Law of the PRC on Administrative Penalties (Revised in 2021) (Chairman Order [2021] No. 70)**
<http://www.npc.gov.cn/npc/c30834/202101/08336daf00b84b82b891f39e32326308.shtml>
- ▶ **Administrative Measures for the Deposit and Management of Reserve Funds of Clients of Non-bank Payment Institutions (PBOC Order [2021] No. 1)**
http://www.gov.cn/zhengce/zhengceku/2021-01/23/content_5582141.htm
- ▶ **PN regarding public opinion consultation on the "Administrative Measures for the Quality of Liabilities of Commercial Banks (Discussion Draft)"**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=961805&itemId=925&generaltype=0>
- ▶ **Notice regarding public opinion consultation on the "Administrative Measures for Permits of Banking and Insurance Institutions (Discussion Draft)"**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=961722&itemId=925&generaltype=0>
- ▶ **Decisions on abolishing the "Regulations on Foreign Investment in the Civil Aviation Industry" and six supplementary provisions (MOT Order [2020] No. 23)**
http://xxgk.mot.gov.cn/2020/jigou/fgs/202101/t20210126_3518977.html
- ▶ **Notice regarding the list of the 2020 National Technology Business Incubators (Guokefahuo [2021] No. 11)**
<http://www.chinatorch.gov.cn/kjb/tzgg/202101/5bff97be56ba4740a0cd2f8ce687d4ae.shtml>
- ▶ **PN regarding the trigger volumes of two types of agricultural products imported from Australia in 2021 (GAC PN [2021] No. 8)**
<http://www.customs.gov.cn/customs/302249/2480148/3525337/index.html>



Contact us

For more information, please contact your usual EY contact or one of the following EY's China tax leaders.

Author - China Tax Center

Jane Hui
+852 2629 3836
jane.hui@hk.ey.com

Greater China Tax Leader

Henry Chan
+86 10 5815 3397
henry.chan@cn.ey.com

Our tax leaders by market segment and service areas

Martin Ngai (China North)
+86 10 5815 3231
martin.ngai@cn.ey.com

Patricia Xia (China Central)
+86 21 2228 2878
patricia.xia@cn.ey.com

Ho Sing Mak (China South)
+86 755 25028289
Ho-Sing.Mak@cn.ey.com

David Chan (Hong Kong SAR/Macau SAR)
+852 2629 3228
david.chan@hk.ey.com

Heidi Liu (Taiwan)
+886 2 2757 8888
heidi.liu@tw.ey.com

Carrie Tang
Business Tax Services
+86 21 2228 2116
carrie.tang@cn.ey.com

Vickie Tan
Global Compliance and Reporting
+86 21 2228 2648
vickie.tan@cn.ey.com

Becky Lai
Tax Policy
+852 2629 3188
becky.lai@hk.ey.com

Andrew Choy
International Tax and Transaction Services
+86 10 5815 3230
andrew.choy@cn.ey.com

Travis Qiu
ITTS - Transfer Pricing
+86 21 2228 2941
travis.qiu@cn.ey.com

Jesse Lv
ITTS - Transaction Tax
+86 21 2228 2798
jesse.lv@cn.ey.com

Kevin Zhou
Indirect Tax - VAT
+86 21 2228 2178
kevin.zhou@cn.ey.com

Bryan Tang
Indirect Tax - Global Trade
+86 21 2228 2294
bryan.tang@cn.ey.com

Patricia Xia
Tax Technology
and Transformation
+86 21 2228 2878
patricia.xia@cn.ey.com

Paul Wen
People Advisory Services
+852 2629 3876
paul.wen@hk.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients, nor does it own or control any member firm or act as the headquarters of any member firm. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2021 Ernst & Young, China.
All Rights Reserved.

APAC no. 03011897
ED None.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com/china

Follow us on WeChat

Scan the QR code and stay up-to-date with the latest EY news.

