

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.

Tax circulars

- ▶ **Public notice (PN) regarding issues related to the 2020 annual Individual Income Tax (IIT) reconciliation for consolidated income (STA PN [2021] No. 2)**

Synopsis

On 8 February 2021, the State Taxation Administration (STA) announced STA PN [2021] No. 2 ("PN 2") regarding issues related to the annual IIT reconciliation for consolidated income derived by resident taxpayers for year 2020 (hereinafter referred to as "annual IIT filing").

Key features of PN 2 are as follows:

Calculation of IIT payable or IIT refundable in the 2020 annual IIT filing

The consolidated income (i.e., wages and salaries, remuneration for personal services, authors' remuneration and royalties) of a resident taxpayer, shall be added up for calculating IIT payable or refundable for year 2020 with specific formula as below:

IIT payable or IIT refundable for annual IIT filing = [(Consolidated income - RMB60,000 - Special deductions - Specific additional tax deductions - Other deductions stipulated by law and regulations - Qualifying donations) × Applicable tax rate - Quick reckoning deduction] - Tax pre-paid for 2020

Resident taxpayers that are required/not necessary to perform the 2020 annual IIT filing

A resident taxpayer that meets one of the following criteria is required to perform the 2020 annual IIT filing	A resident taxpayer that meets one of the following criteria is not necessary to perform the 2020 annual IIT filing provided that his/her provisional IIT filings for year 2020 have been completed as required by law
<ul style="list-style-type: none"> ▶ The resident taxpayer has overpaid IIT for consolidated income for year 2020 and would like to apply for a tax refund; or ▶ His/her annual consolidated income exceeds RMB120,000 and has underpaid IIT of more than RMB400 for consolidated income for year 2020. 	<ul style="list-style-type: none"> ▶ The resident taxpayer has underpaid IIT for consolidated income but his/her annual consolidated income does not exceed RMB120,000; ▶ His/her underpaid IIT for consolidated income does not exceed RMB400 for year 2020; or ▶ His/her pre-paid IIT amount is consistent with the IIT payable amount for year 2020 or the taxpayer would not like to apply for a tax refund.

Deadline for the annual IIT filing

The annual IIT filing should be completed within the period from 1 March 2021 to 30 June 2021. Taxpayers who have no domicile in Mainland China and plan to depart before 1 March 2021 may complete the annual IIT filing before their departure.

It is important for taxpayers to review if they have any outstanding income/expenses that should be reported or claimed for the 2020 annual IIT filing, such as royalty income, charitable donation or deductible educational expenses, etc. Taxpayers are always recommended to reach out to tax professionals for assistance, especially if this is their first filing for the annual reconciliation of IIT.

Our People Advisory Services team issued a WeChat news article (in Chinese) on 20 February 2021 to discuss PN 2 in greater detail. For the WeChat news article, you can follow us on WeChat by scanning the QR Code on the last page of this CTIE and search keywords to access the full content of the alert.

You can click this link to access the full content of PN 2:

http://www.jiangsu.gov.cn/art/2021/2/3/art_46144_9664095.html

▶ **PN regarding transitional issues related to the recognition of the organizations through which charitable donations made are deductible for income tax purposes (MOF/STA/MCA PN [2021] No. 3)**

Synopsis

To implement MOF/STA/MCA PN [2020] No. 27 ("PN 27", i.e., PN regarding matters related to the deduction of charitable donations for Corporate Income Tax (CIT) and IIT purposes), the Ministry of Finance (MOF), STA and Ministry of Civil Affairs (MCA) jointly released MOF/STA/MCA PN [2021] No. 3 ("PN 3") on 4 February 2021 to clarify the transitional issues related to the recognition of the organizations through which charitable donations made are deductible for income tax purposes (hereinafter referred to as the "eligible organizations").

PN 3 lowers the bar for the recognition of the eligible organizations for years 2020, 2021 and 2022, e.g., newly established social organizations are not required to obtain 3A status or above for the recognition, etc. Accordingly, it is expected that more organizations can be recognized as eligible organizations. Thus, IIT and CIT taxpayers have more options to choose for tax deductible charitable donations. We will keep an eye on any further developments and advise you accordingly; please stay tuned.

You can click this link to access the full content of PN 3:

http://szs.mof.gov.cn/zhengcefabu/202102/t20210207_3655869.htm

You can click this link to access the full content of PN 27:

http://szs.mof.gov.cn/zhengcefabu/202005/t20200520_3516908.htm

Synopsis

On 5 February 2021, relevant departments of the MOF, National Archives Administration and STA jointly responded to some questions concerning the administration and operation of electronic special VAT invoices (hereinafter referred to as the "Q&As"). Some of the Q&As are highlighted below.

Q: Is the legal effect of an electronic special VAT invoice as a type of electronic accounting document the same as that of paper accounting document?

A: As an electronic accounting document, a legal and authentic electronic special VAT invoice has the same legal effect as paper accounting documents and can be stored and archived as electronic files.

Q: How can new taxpayers adopting e-invoicing system issue electronic invoices?

A: New taxpayers who adopt e-invoicing shall apply for the verification of eligibility for issuing electronic special VAT invoices through the electronic tax bureau or tax service halls. Once approved, they can download and install the VAT invoice issuing software (Tax-UKey Version) from the VAT invoice verification platform of the STA (<https://inv-veri.chinatax.gov.cn>). Thereafter, they can issue electronic special VAT invoices, which can be delivered to invoice recipients remotely.

Q: How can invoice recipients apply for input VAT deduction, export tax refund or act as tax refund agent after receiving electronic special VAT invoices?

A: Invoice recipients should log onto the VAT invoice comprehensive service platform to verify the purposes of invoices. The website address shall be announced by tax authorities at the provincial level.

Q: Can printed copies of electronic special VAT invoices be individually used as the documentation of reimbursement for archiving purposes?

A: No. According to Caikuai [2020] No. 6, no matter what accounting method is adopted, if the printed copy of an electronic special VAT invoice is used as the reimbursement documentation, it must be archived simultaneously.

Q: How should invoice recipients prevent the risk of duplicate reimbursement occurred due to printed copies of electronic special VAT invoices?

A: The electronic copy of a special VAT invoice must be retained if the invoice is issued electronically. It is also suggested that entities should check invoice numbers for reimbursement and establish invoice database or spreadsheets to effectively prevent the risk of duplicate reimbursement and false entry.

Q: How should invoice recipients that accept electronic special VAT invoices retain and manage relevant paper accounting documents?

A: For those invoice recipients that accept electronic special VAT invoices while at the same time still use paper vouchers for reimbursement and accounting purposes, the paper accounting vouchers should still be managed in accordance with the traditional method for managing accounting documents.

Relevant taxpayers are advised to read the Q&As for more details and observe the regulations accordingly. As electronic VAT invoice system may eventually be adopted nationwide and in all industries, and the new system may bring about a dramatic change to accounting and tax compliance practices, we would highly recommend that you talk to the respective experts to ensure your organization is ready for adopting the change.

You can click this link to access the full content of the Q&As:

http://shandong.chinatax.gov.cn/art/2021/2/5/art_27_258717.html?xxgktype=1

- ▶ **PN regarding public opinion consultation on the “Standards for Formulating the List of Integrated Circuit (IC) Enterprises, Projects and Software Enterprises Eligible for Preferential Tax Policies (Discussion Draft)”**
- ▶ **Notice regarding public opinion consultation on the conditions for encouraged software enterprises**

Synopsis

In order to implement Guofa [2020] No. 8 (“Circular 8”, i.e., Notice regarding certain policies for promoting the high-quality development of the IC industry and software industry in the new era) and further optimize the environment for the development of the IC industry and software industry, the National Development and Reform Commission (NDRC) recently proposed “Standards for Formulating the List of IC Enterprises, Projects and Software Enterprises Eligible for Preferential Tax Policies (Discussion Draft)” (hereinafter referred to as the “Discussion Draft”) and released to seek public opinion on 5 February 2021.

Key features of the Discussion Draft are as follows:

Standards of the list formulation

The list of IC enterprises, projects and software enterprises that can enjoy preferential tax policies includes (see Attachments 1 and 2 of the Discussion Draft for specific requirements and fields):

- ▶ Encouraged IC manufacturing enterprises or projects producing products with IC line width equal to or less than 28nm, 65nm and 130nm which are mentioned in Article 1 of Circular 8;
- ▶ Encouraged key IC design enterprises and key software enterprises which are mentioned in Article 3 and Article 7 of Circular 8;
- ▶ Manufacturing enterprises of logic circuit and memory chip with IC line width equal to or less than 65nm, IC manufacturing enterprises producing products with IC line width equal to or less than 0.25μm with characteristic technology, compound IC manufacturing enterprises producing products with IC line width equal to or less than 0.5μm and advanced packaging and testing enterprises, which are mentioned in Article 6 of Circular 8;
- ▶ Major IC projects mentioned in Article 8 of Circular 8.

Application and approval

Enterprises apply to be incorporated into the list shall submit application materials to local development and reform commissions and competent industry and information technology authorities for review and approval from 25 March to 16 April each year.

Enjoy preferential tax treatment

Enterprises can enjoy domestic preferential tax policies in advance based on their conditions before the issuance of the list. Where an enterprise (or project) that has already enjoyed preferential tax policies undergoes name change, split, merger, reorganization or major changes in its main business, it should, in a timely manner, report to the local development and reform commissions and industry and information technology authorities to determine whether it still meets the conditions after the changes.

Relevant IC enterprises and software enterprises are encouraged to express opinion on or before 8 March 2021 by logging onto the official website of the NDRC (i.e., www.ndrc.gov.cn) or sending emails to jcdlrj@ndrc.gov.cn.

In addition, on 9 February 2021, the Ministry of Industry and Information Technology (MIIT) issued the "Notice regarding public opinion consultation on the conditions for encouraged software enterprises" (hereinafter referred to as the "Notice") to seek public opinion. The Notice clarifies the recognition standards for encouraged software enterprises, including specific conditions for the ratio of highly educated employees and research and development (R&D) personnel, investment in R&D, independent intellectual property rights, etc. Relevant enterprises are encouraged to make reference to the Notice for more details and express opinion on or before 10 March 2021 by sending emails to fuyongbao@miit.gov.cn.

You can click this link to access the full content of the Discussion Draft:
https://www.ndrc.gov.cn/hdjl/yjqz/202102/t20210207_1267047.html

You can click this link to access the full content of Circular 8:
http://www.gov.cn/zhengce/content/2020-08/04/content_5532370.htm

You can click this link to access the full content of the Notice:
https://www.miit.gov.cn/gzcy/yjzj/art/2021/art_4c2b72bcd6a41da9089f074cc3d043f.html

Other business related circulars publicly announced by central government authorities in the past week:

- ▶ **Notice regarding the memorandum of understanding for the pilot run of "Cross-border Wealth Management Connect" in the Guangdong-Hong Kong-Macao Greater Bay Area**
<https://www.amcm.gov.mo/zh/news-and-announcements/press-releases/gap/>
- ▶ **Regulations on the registration administrative system of insiders of listed companies (CSRC PN [2021] No. 5)**
http://www.csrc.gov.cn/pub/zjhpublic/zjh/202102/t20210205_392306.htm
- ▶ **Guidance on Anti-monopoly for Platform Economy (Guofanlongfa [2021] No. 1)**
http://gkml.samr.gov.cn/nsjg/fldj/202102/t20210207_325967.html
- ▶ **Notice regarding strictly implementing the accounting standards for business enterprises and enhancing the work on the 2020 enterprise annual report (Caikuai [2021] No. 2)**
http://kjs.mof.gov.cn/gongzuotongzhi/202102/t20210205_3654954.htm
- ▶ **Notice regarding the "Q&As on Auditing Standards of Chinese Certified Public Accountants (No.16) - Modified Opinions in Audit Reports"**
http://www.cicpa.org.cn/news/202102/t20210207_53371.html
- ▶ **Notice regarding public opinion consultation on the "Provisional Measures for Handling Enterprise Name Disputes (Discussion Draft)"**
http://www.samr.gov.cn/hd/zjdc/202102/t20210210_326055.html
- ▶ **PN regarding public opinion consultation on the "Administrative Measures on the List of Enterprises Seriously Violating Laws or Acting in Bad Faith (Discussion Draft)"**
http://www.samr.gov.cn/hd/zjdc/202102/t20210210_326053.html
- ▶ **Notice regarding seven abolished/invalidated regulations on foreign exchange administration**
<http://www.safe.gov.cn/safe/2021/0210/18259.html>
- ▶ **Catalog of Currently Enforceable Regulations on Foreign Exchange Administration (as of 31 December 2020)**
<http://www.safe.gov.cn/safe/2021/0210/18260.html>
- ▶ **Approval on the overall plan to build the Hongqiao international opening-up hub in Shanghai (Guohan [2021] No. 21)**
http://www.gov.cn/zhengce/content/2021-02/18/content_5587541.htm
- ▶ **Measures for the Reputation Risk Management of Banking and Insurance Institutions (Trail)**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=967210&itemId=926>

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. 03011963
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.

