

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

- ▶ **Notice regarding the import-level tax policies for supporting the development of the integrated circuit (IC) industry and software industry (Caiguanshui [2021] No. 4)**
- ▶ **Notice regarding the administrative measures of the import-level tax policies for supporting the development of the IC industry and software industry (Caiguanshui [2021] No. 5)**
- ▶ **Notice regarding standards for formulating the list of IC enterprises, projects and software enterprises eligible for preferential tax policies (Fagaigaoji [2021] No. 413)**

Synopsis

Recently, relevant government authorities jointly released a series of circulars to further clarify the implementation of import-level tax preferential policies as announced in 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).

Among these, Caiguanshui [2021] No. 4 ("Circular 4") jointly released by the Ministry of Finance (MOF), State Taxation Administration (STA) and General Administration of Customs (GAC) on 16 March 2021 further clarifies the import-level tax policies for IC and software enterprises as follows:

Matters as prescribed in Circular 8	Further clarifications in Circular 4
<ul style="list-style-type: none"> ▶ CD for the importation of raw materials, articles of consumables, parts, specific construction materials for clean room, etc. (hereinafter collectively referred to as "materials") for self-use by qualifying logic circuit or storage manufacturing enterprises that produce products with line width equal to or less than 65nm and qualifying IC manufacturing enterprises that produce products with line width equal to or less than 0.25µm shall be exempt. ▶ CD for the importation of materials for self-use by qualifying IC manufacturing enterprises that produce products with line width equal to or less than 0.5µm and advanced assembly and testing technology enterprises shall be exempt. 	<ul style="list-style-type: none"> ▶ Circular 4 further specifies that enterprises that produce products with line width equal to or less than 0.25µm are referring to analog, high voltage, radio frequency IC manufacturing enterprises, etc. ▶ Circular 4 further clarifies that qualifying IC manufacturing enterprises that produce certain key raw materials and parts such as photoresist, etc. shall also be applicable to the CD exemption for importation of materials. ▶ The import materials that are eligible for CD exemption should be self-used materials that cannot be produced domestically, or the domestically produced materials cannot meet the demands.
<p>CD for the importation of equipment together with related technology (including software), parts and auxiliary equipment, as well as spare parts (except for those that are not entitled to CD exemption) to be used by encouraged key IC design enterprises and software enterprises as well as the abovementioned qualifying IC manufacturing enterprises and advanced assembly and testing technology enterprises shall be exempt.</p>	<ul style="list-style-type: none"> ▶ Circular 4 further specifies that "those that are not entitled to CD exemption" refers to goods listed in the Catalog of Imported Commodities without Tax Exemption for Domestic Investment Projects, the Catalog of Imported Commodities of Foreign-invested Projects Not Entitled to Duties Exemption and the Catalog of Non-tax exempt imported Key Technical Equipment and Products. ▶ The CD-exempt import equipment, technology, etc. to be used by encouraged key IC design enterprises and software enterprises as well as the abovementioned qualifying IC manufacturing enterprises and advanced assembly and testing technology enterprises shall not take up the total investment of the enterprises.
<p>Import-level VAT for the importation of equipment for key IC projects can be paid by installments, applicable period to be announced.</p>	<p>For the period from 27 July 2020 to 31 December 2030, newly imported equipment (except for those that are not applicable for CD exemption) by enterprises undertaking key IC projects may be allowed to pay the import-level VAT by installments within six years upon the importation of the first equipment, i.e., 0% shall be paid in the first year and 20% shall be paid in each year following.</p>

Accordingly, Caiguanshui [2021] No. 5 ("Circular 5") was released by the MOF, Ministry of Industry and Information Technology, National Development and Reform Commission, STA and GAC on 22 March 2022 to specify the arrangements for stipulation and announcement of relevant lists for IC/software enterprises as well as lists of materials and goods that are qualifying for the CD exemption and installment payment for import-level VAT as prescribed in Circular 4. Both Circulars 4 and 5 are valid from 27 July 2021 to 31 December 2030.

Following to Circular 5, the relevant government authorities jointly released Fagaigaoji [2021] No. 413 ("Circular 413") on 29 March 2021 to announce the detailed standards for formulating the lists of IC enterprises, projects and software enterprises eligible for preferential tax policies. According to Circular 413, enterprises that qualify for the criteria and standards as announced in Circular 413 should complete online filing within the period from 25 March to 16 April 2021 of each year and submit the relevant supporting documents via the information reporting system. Those enterprises that cannot complete audit on their financial statements by 16 April of the year following will be provided with an extended deadline, i.e., 10 working days after 16 April.

IC and software enterprises that intend to apply for the CD exemption or import level VAT installment are advised to read Circulars 4, 5 and 413 in detail and get ready for the online filing which shall be due by 16 April 2021. Given the tight schedule, enterprises are encouraged to consult with professionals if in doubt.

You can click this link to access the full content of Circular 4:

http://gss.mof.gov.cn/gzdt/zhengcefabu/202103/t20210329_3677452.htm

You can click this link to access the full content of Circular 5:

http://gss.mof.gov.cn/gzdt/zhengcefabu/202103/t20210329_3677454.htm

You can click this link to access the full content of Circular 413:

http://www.gov.cn/zhengce/zhengceku/2021-03/30/content_5596739.htm

► **Public notice (PN) regarding matters related to further optimizing the procedures and formalities for enjoying preferential VAT policies (STA PN [2021] No. 4)**

Synopsis

In order to deepen the reform of “Delegate Power, Streamline Administration and Optimize Government Services” and to further optimize the tax environment, the STA issued STA PN [2021] No. 4 (“PN 4”) on 29 March 2021 to clarify certain matters in relation to further optimizing the procedures and formalities for enjoying preferential VAT policies.

Key features of PN 4 are as follows:

Filing and retaining documents for future reference

Entities and self-employed industrial and commercial households (hereinafter collectively referred to as “taxpayers”) that are eligible for VAT reduction and exemption policies can enjoy the preferential treatments by filling in the corresponding “reduction and exemption” columns in the VAT returns. Supporting documents required according to the relevant policies shall be retained for future reference.

Same-time levy and rebate

When applying for the VAT refund for the first time, a taxpayer should submit application materials and relevant supporting documents according to relevant regulations. However, in the subsequent applications, only application materials need to be provided if there is no change in the supporting documents. In case of any change in the conditions for same-time levy and rebate, the taxpayer shall report to the competent tax authority in writing at the time of the first declaration after the change.

Termination of preferential VAT treatments

Where the conditions of preferential VAT policies are not met, taxpayers are no longer allowed to enjoy preferential VAT treatments from the month in which the conditions changed unless otherwise specified.

PN 4 became effective on 1 April 2021. Relevant taxpayers are advised to read PN 4 carefully for more details and observe the regulations. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of PN 4:

<http://www.chinatax.gov.cn/chinatax/n359/c5162928/content.html>



- ▶ **PN regarding clarifying the VAT exemption policy for small-scale VAT taxpayers (MOF/STA PN [2021] No. 11)**
- ▶ **PN regarding matters related to the VAT exemption of small-scale VAT taxpayers (STA PN [2021] No. 5)**

Synopsis

In order to further support the development of small and micro-sized enterprises, on 31 March 2021, the MOF and STA jointly issued MOF/STA PN [2021] No. 11 ("PN 11"), stipulating that the small-scale VAT taxpayers with monthly sales not exceeding RMB150,000 are exempt from VAT (the original cap was RMB100,000), effective from 1 April 2021 to 31 December 2022. In addition, on the same day, the STA also released another circular, STA PN [2021] No. 5 ("PN 5"), clarifying certain matters related to the VAT exemption of small-scale VAT taxpayers.

Some key points mentioned in PN 5 are as follows:

VAT exempt sales of small-scale VAT taxpayers

- ▶ For small-scale VAT taxpayers with monthly/quarterly sales exceeding RMB150,000/RMB450,000, the sales of goods, labor, services and intangible assets shall be exempt from VAT where the total monthly/quarterly sales excluding real estate sales are no more than RMB150,000/RMB450,000.
- ▶ For small-scale VAT taxpayers that report VAT on a net basis, the cap for VAT exemption is also based on the net basis.

Tax period

Small-scale VAT taxpayers may select either one month or one quarter as the tax period. Once selected, it cannot be changed within one fiscal year.

Rental income

Rental income obtained by leasing real estate on a lump sum basis can be evenly distributed over the lease term and if the monthly average rental income does not exceed RMB150,000, VAT shall be exempted.

Real estate sales

Self-employed industrial and commercial households and entities that are recognized as small-scale VAT taxpayers shall determine whether to conduct provisional filings for real estate sales according to the prevailing policies and regulations; individuals who sell real properties shall continue to be exempted from VAT in accordance with the prevailing regulations.

Small-scale VAT taxpayers are advised to read PN 11 and PN 5 for more details so as to observe the regulations and enjoy the benefits offered. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of PN 11:

<http://www.chinatax.gov.cn/chinatax/n359/c5162930/content.html>

You can click this link to access the full content of PN 5:

<http://www.chinatax.gov.cn/chinatax/n359/c5162926/content.html>

- ▶ **PN regarding "List of Illegal Acts Exempt from Tax Administrative Punishment in Case of First-time Violation" (STA PN [2021] No. 6)**

Synopsis

To better serve the market entities, on 31 March 2021, the STA released the "List of Illegal Acts Exempt from Tax Administrative Punishment in Case of First-time Violation" (hereinafter referred to as the "List") via STA PN [2021] No. 6.

According to the List, parties may be exempt from tax administrative punishment for committing a violation for the items in the List provided that following requirements are met:

- ▶ The parties commit the violation for the items in the List for the first time; and
- ▶ The harmful consequence of the violation is minor; and
- ▶ The parties make rectifications before the tax authorities find the violations or make rectifications within the period prescribed by the tax authorities.

The List covers 10 items in total with certain types of minor tax illegal acts (e.g., material reporting, tax filing and invoice management) which shall apply to taxpayers, withholding agents and domestic institutions or individuals.

The List became effective from 1 April 2021. We have issued a Wechat news article (in Chinese) on 2 April 2021 setting out extensive discussion on the List, you can follow us on Wechat by scanning the QR Code on the last page on this CTIE and search key words to access its full content.

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

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5162954/content.html>

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

- ▶ **Notice regarding implementing the “Opinions on Further Deepening the Reform of Tax Collection and Administration” (Shuizongfa [2021] No. 21)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5162760/content.html>
- ▶ **Notice regarding the administrative measures for the quality control of the liabilities of commercial banks**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=973230>
- ▶ **Notice regarding preventing the illegal inflow of business loans into the real estate market**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=973455>
- ▶ **Regulations on the Opening-up and Operation Administration of Civil Aviation Navigation Equipment (MOT Order [2021] No. 2)**
http://xxgk.mot.gov.cn/2020/jigou/fgs/202103/t20210326_3541202.html
- ▶ **Opinions of the Supreme People’s Court on providing judicial services and guarantees for the construction of the Beijing National Comprehensive Demonstration Zone for Expanding the Opening-up of the Service Sector and the China (Beijing) Pilot Free Trade Zone (Fafa [2021] No. 11)**
<http://www.court.gov.cn/fabu-xiangqing-292921.html>
- ▶ **Notice regarding public opinion consultation on revising the “Regulations of the China Securities Regulatory Commission on the Implementation Procedures for Administrative Licensing”**
http://www.csrc.gov.cn/pub/zjhpublic/zjh/202103/t20210326_394879.htm
- ▶ **Notice regarding certain matters related to delegating approval authority for the business licensing of international express business (agency) to the Beijing Municipal Postal Administration**
http://ynlc.spb.gov.cn/bmfw_10395/202103/t20210305_3854735.html
- ▶ **Notice regarding matters related to enhancing the credit supervision of cultural and tourism markets (Banshichangfa [2021] No. 54)**
http://zwgk.mct.gov.cn/zfxxgkml/scgl/202103/t20210330_923415.html
- ▶ **PN regarding public opinion consultation on the “Notice Regarding Further Enhancing the Reform of Improving the Services for the Establishment of Enterprises (Discussion Draft)”**
http://www.samr.gov.cn/hd/zjdc/202103/t20210331_327446.html
- ▶ **Notice regarding public opinion consultation on the “Measures for the Administration and Retention of Record of Due Diligence, Identity Information and Transactions of Clients of Financial Institutions (Revised Discussion Draft)”**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=974368>

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