

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.

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Tax circulars

- ▶ **Public notice (PN) regarding implementing the preferential income tax policies for small and micro-sized enterprises (SMEs) and self-employed industrial and commercial households (MOF/STA PN [2021] No. 12)**
- ▶ **PN regarding certain matters related to implementing the preferential income tax policies for SMEs and self-employed industrial and commercial households (STA PN [2021] No. 8)**

Synopsis

In order to support the development of SMEs and self-employed industrial and commercial households, on 2 April 2021, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released MOF/STA PN [2021] No. 12 ("PN 12") to specify issues regarding implementing the preferential income tax policies for SMEs and self-employed industrial and commercial households. Accordingly, on 7 April 2021, the STA released STA PN [2021] No. 8 ("PN 8") to elaborate the relevant issues in further details.

Key features of PN 12 and PN 8 are as follows:

Corporate Income Tax (CIT) preferential treatment for qualified SMEs

- ▶ For qualified SMEs¹, any part of their annual taxable income below one million yuan is eligible for 87.5% reduction when calculating CIT and the income between one million yuan and three million yuan is eligible for 50% reduction. The applicable CIT rate is 20%.
- ▶ The relevant issues on tax administration and collection in this regard should still be referenced to STA PN [2019] No. 2 ("PN 2", i.e., PN regarding issues related to implementation of tax reduction/exemption policies for qualified SMEs).

Individual Income Tax (Tax) preferential treatment for self-employed industrial and commercial households

- ▶ On top of the prevailing preferential IIT treatments for self-employed industrial and commercial households, regardless the basis they are adopting for IIT reporting (e.g., on an actual basis or deemed basis), any part of their annual taxable business operation income below one million yuan is eligible for 50% reduction when calculating IIT.
- ▶ The self-employed industrial and commercial households shall be able to claim the tax preference during provisional IIT filings based on their aggregated taxable income at the end of the filing period. Any underpaid/overpaid IIT should be settled in the annual IIT filing. In case a self-employed industrial and commercial household derives business operation income from two or more locations, such income should be combined in the annual IIT filing to re-calculate the annual IIT payable.
- ▶ The exemption/reduction amount for a self-employed industrial and commercial household should be calculated as follows:

Exemption/reduction amount = (First one million yuan of annual taxable business operation income - Other exemption/reduction amount x First one million yuan of annual taxable business operation income ÷ Taxable business operation income) x (1-50%)

The above preferential income tax treatments as prescribed in PNs 12 and 8 took retroactive effect from 1 January 2021 and shall be implemented until 31 December 2022. Self-employed industrial and commercial households may offset any IIT overpaid before issuance of PN 8 in the following months or apply for a tax refund.

It is also worthy to note that IIT taxpayers (including self-employed industrial and commercial households, sole individual proprietorship enterprises, partnership enterprises, and natural persons) are no longer required to pay IIT in advance for applying for Value-added tax (VAT) invoices of freight transport services issued on their behalves by tax authorities.

Concerned taxpayers are encouraged to read the relevant policies in detail to fully enjoy the income tax preferences.

¹ Qualified SMEs should not engage in any restricted or prohibited industries in China and should have annual taxable income not exceeding RMB3 million, headcount not exceeding 300 and total assets not exceeding RMB50 million. Among these, the abovementioned staff number should include all employees that signed employment contracts with the SMEs as well as personnel assigned to work in the SMEs by labor services companies. When filing the provisional CIT returns, a SME should pre-determine whether itself is a qualified SME based on its amount of assets, staff number and aggregated taxable income at the end of the filing period.

You can click this link to access the full content of PN 12:

http://szs.mof.gov.cn/zhengcefabu/202104/t20210409_3683758.htm

You can click this link to access the full content of PN 8:

<http://www.chinatax.gov.cn/chinatax/n362/c5163255/content.html>

You can click this link to access the full content of STA's official interpretation on PN 8:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5163256/content.html>

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

<http://www.chinatax.gov.cn/n810341/n810755/c4014427/content.html>

► **Notice regarding public opinion consultation on the “Regulations on Procedures for Handling Tax Inspection Cases (Discussion Draft)”**

Synopsis

To cope with the opinions on further deepening the reform of tax collection and administration (hereinafter referred to as the “Opinions”), on 9 April 2021, the STA released the “Regulations on Procedures for Handling Tax Inspection Cases (Discussion Draft)” (hereinafter referred to as the “Discussion Draft”) on its official website to seek public opinion. The consultation of public opinion shall be opened until 9 May 2021.

The Discussion Draft includes 63 articles in six chapters, i.e., the general principle, the selection of cases, the inspection, review, implementation and the appendix. Among these, the following contents are worth noting:

- It is proposed in Article 11 that the process of the tax inspection and enforcement shall be fully documented, so that the process of filing a case, inspection, review and enforcement shall all be traceable.
- It is proposed in Article 17 that any evidence obtained by tax authorities through means that violated mandatory provisions of laws and others’ legitimate rights and interests should be excluded.
- It is proposed in Article 52 that where a person subject to enforcement is having financial difficulties, the penalty may be allowed to be paid in installments or postponed upon approval.
- It is proposed in Article 47 that a tax authority should generally complete the administrative process of a case, issue notice of administrative sanction or conclusion of no violations within 90 days after the case is being filed. This time frame may be extended upon approval.

Concerned parties should read the Discussion Draft and are encouraged to express opinions before 9 May 2021 by sending mails or logging onto <http://www.chinatax.gov.cn>.

You can click this link to access the full content of the Discussion Draft:
<http://www.chinatax.gov.cn/chinatax/n810356/n810961/c5163162/content.html>

You can click this link to access the full content of the Opinions:
http://www.gov.cn/zhengce/2021-03/24/content_5595384.htm

- **Notice regarding the import-level tax policies for supporting the development of new display industry for 2021-2030 (Caiguanshui [2021] No. 19)**
- **Notice regarding the administrative measures for the import-level tax policies for supporting the development of new display industry for 2021-2030 (Caiguanshui [2021] No. 20)**

Synopsis

To accelerate the development of information technology, on 31 March 2021, the MOF, STA and General Administration of Customs (GAC) jointly released Caiguanshui [2021] No. 19 (“Circular 19”) to clarify import tax policies for the new display industry.

Key features of Circular 19 are as follows:

- From 1 January 2021 to 31 December 2030, Custom Duty (CD) shall be exempt for the following activities:
 - Importation of raw materials, articles of consumables and auxiliary system for clean room, as well as parts of manufacturing equipment (that cannot be produced or meet the requirements domestically) for self-use by qualifying manufacturing enterprises of new display device.
 - Importation of raw materials and articles of consumables (that cannot be produced or meet the requirements domestically) for self-use by qualifying manufacturing enterprises of key raw materials and parts in new display industry.
- For the period from 1 January 2021 to 31 December 2030, newly imported equipment (except for those that are not applicable for CD exemption) by enterprises undertaking key new display device projects may be allowed to pay the import-level VAT by installments with 0% in the first year and the rest spread evenly over the 5 years following.

Further to Circular 19, the MOF, Ministry of Industry and Information Technology, National Development and Reform Commission, STA and GAC jointly released Caiguanshui [2021] No. 20 (“Circular 20”) on the same day to specify the administrative measures for the tax preferential policies for the new display industry as prescribed in Circular 19.

Circular 20 clarified arrangements on the stipulation and publication for lists of manufacturing enterprises in the new display industry and lists of imported goods which are eligible for tax exemption, as well as application requirements on the installment payment for import-level VAT. Circular 20 is valid from 1 January 2021 to 31 December 2030.

Enterprises engaging in the new display industry are encouraged to read Circular 19 and Circular 20 for more details and leverage the benefits. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 19:

http://www.gov.cn/zhengce/zhengceku/2021-04/14/content_5599492.htm

You can click this link to access the full content of Circular 20:

http://www.gov.cn/zhengce/zhengceku/2021-04/14/content_5599494.htm

Business circulars

► Notice regarding the adjusted Catalog of Pre-approval Items for Business Registration (Guoshijianzhufa [2021] No. 17)

Synopsis

On 20 March 2021, the State Administration for Market Supervision released the Catalog of Pre-approval Items for Business Registration (hereinafter referred to as the "Catalog I") and Catalog of Pre-approval Items for Registration of Alteration and De-registration of Enterprises" (hereinafter referred to as the "Catalog II") via Guoshijianzhufa [2021] No. 17 ("Circular 17").

Key features of the two catalogs are as follows:

Catalog I

Items	Competent authorities	Regulatory base
Approval for the establishment of securities companies	China Securities Regulatory Commission (CSRC)	Securities Law of the People's Republic of China (PRC)
License for for-profit private schools (for-profit private training institutions)	Education departments and human resources and social security departments of the people's governments at the county level or above	Non-state Education Promotion Law of the PRC
Approval for the establishment of financial holdings companies	People's Bank of China (PBOC)	Provisional Measures of the PRC for the Supervision and Administration of Financial Holding Companies, etc.
Approval for the establishment of business organizations and branches of foreign-funded banks	China Banking and Insurance Regulatory Commission (CBIRC)	Administrative Regulations of the PRC on Foreign-funded Banks, etc.
Approval for the establishment of representative offices of foreign banks	CBIRC	Administrative Regulations of the PRC on Foreign-funded Banks, etc.
Approval for the establishment of representative offices of foreign securities institutions	CSRC	Administrative Regulations on the Registration of Resident Representative Offices of Foreign Enterprises, etc.
Approval for the establishment of insurance companies and their branches	CBIRC	Insurance Law of the PRC, etc.
Approval for the establishment of representative offices of foreign insurance institutions	CBIRC	Insurance Law of the PRC, etc.
Labor dispatching license	Human resources and social security departments of the people's governments at the provincial, municipal and county level	Labor Contract Law of the PRC

Items	Competent authorities	Regulatory base
Labor dispatching license	Human resources and social security departments of the people's governments at the provincial, municipal and county level	Labor Contract Law of the PRC
Approval for the qualification of foreign labor service cooperation	Commerce departments of the people's governments at the provincial and municipal level	Regulations on the Administration of Foreign Labor Service Cooperation
Approval for the alteration, termination and business scope of Chinese funded banking financial institutions and their branches	CBIRC	Banking Regulation Law of the PRC, etc.
Approval for the alteration, termination and business scope of non-banking financial institutions (branches)	CBIRC	Banking Regulation Law of the PRC, etc.
Approval for the alteration of registered capital, working capital, business name, business premises or offices, business scope, shareholders, shareholding ratio, articles of association, and termination of foreign-funded banks	CBIRC	Administrative Regulations of the PRC on Foreign-funded Banks
Approval for the alteration and termination of representative offices of foreign banks	CBIRC	Administrative Regulations of the PRC on Foreign-funded Banks
Approval for the change of name of representative offices of foreign securities institutions	CSRC	Administrative Regulations on the Registration of Resident Representative Offices of Foreign Enterprises, etc.
Approval for the major alteration of representative offices of foreign insurance institutions	CBIRC	Administrative Regulations on the Registration of Resident Representative Offices of Foreign Enterprises, etc.

Enterprises are encouraged to make reference to Circular 17 for greater details. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 17:

http://gkml.samr.gov.cn/nsjg/djzcj/202104/t20210415_327855.html

► **Opinions on financial support for the comprehensive deepening of reform and opening-up in Hainan (Yinfa [2021] No. 84)**

Synopsis

To support the comprehensive deepening of reform and opening-up and to promote the establishment of a compatible financial policy and institutional framework at Hainan Free Trade Port (FTP), on 30 March 2021, the State Administration of Foreign Exchange (SAFE), PBOC, CBIRC and CSRC jointly released Yinfa [2021] No. 84, putting forward relevant opinions on financial support for the comprehensive deepening of reform and opening-up in Hainan (hereinafter referred to as the "Opinions for Hainan").

Key features of the Opinions for Hainan are as follows:

General principles

- ▶ Support the development of real economy in Hainan, focusing on the development of the industries of marine, medical and healthcare, tourism, exhibition, transportation, modern agriculture, service outsourcing and other key areas.
- ▶ Serve the construction of Hainan FTP.
- ▶ Deepen the financial reform and opening-up with institutional innovation as the core.
- ▶ Strengthen the construction of financial risk prevention and control system.

Support the liberalization and facilitation of cross-border trade and investment

- ▶ Further promote the facilitation of cross-border trade in goods, trade in services and new-pattern international trade settlements.
- ▶ Explore foreign exchange administration for cross-border investment to meet new forms of market demand.
- ▶ Explore the pilot run of cross-border asset management.
- ▶ Explore to relax the restriction on personal cross-border investment (securities, real estate, etc.).

Improve the financial market system in Hainan

- ▶ Support the development of banking industry in Hainan and enhance financial services in areas such as the marine and high-tech industries.
- ▶ Support qualified Hainan enterprises to go public and continue to support merger and reorganization of enterprises in Hainan to help them achieve transformation and upgrading.
- ▶ Support enterprises in Hainan to issue bonds for fund raising purposes.
- ▶ Support the establishment of public mutual funds in Hainan.

Expand the opening-up of the financial industry in Hainan

- ▶ Expand the opening-up of the banking industry. Encourage overseas financial institutions to settle in Hainan and support the establishment of Sino-foreign joint venture banks.
- ▶ Expand the opening-up of the insurance industry.
- ▶ Implement national treatment for foreign investment.

Enhance the innovation in financial products and services

- ▶ Encourage the innovation of RMB financial products and business facing the international markets and expand the scope of financial products in Hainan for RMB overseas investment.
- ▶ Innovation and development of insurance services.
- ▶ Encourage the pilot of innovative green finance business in Hainan.
- ▶ Support the development of technology finance and marine technology.

Improve the level of financial services

- ▶ Support the pilot of integrated bank account of domestic and foreign currencies in Hainan.
- ▶ Improve the facilitation of cross-border mobile payment.
- ▶ Continue to promote the credit system for medium, small and micro-sized enterprises in Hainan.

Enhance financial supervision, prevent and resolve financial risks

- ▶ Build a macro-prudential financial management system to strengthen the identification of major risks and prevention of systemic financial risks.
- ▶ Enhance the protection of financial consumers' rights and interests.

Local enterprises and enterprises planning to invest in Hainan are advised to read the Opinions for Hainan carefully so as to leverage the above policies in the development plans.

You can click this link to access the full content of the Opinions for Hainan:

<http://www.safe.gov.cn/safe/2021/0409/18713.html>

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

- ▶ **Reply on granting zero-tariff treatment to 97% of taxable goods originated from the Republic of Benin (Shuiguanhan [2021] No. 30)**
<http://gkml.customs.gov.cn/tabid/1165/InfoID/48235/Default.aspx>
- ▶ **Notice regarding further promoting the work on the comprehensive innovation reform (Fagaigaoji [2021] No. 484)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz//202104/t20210409_1272028.html
- ▶ **Document regarding public opinion consultation on adjusting the application scope of the "Regulations on Accounting Treatment for Rent Reduction related to the COVID-19 Epidemic" (Caibankuai [2021] No. 8)**
http://kjs.mof.gov.cn/gongzuotongzhi/202104/t20210409_3683518.htm
- ▶ **Opinions on further deepening the reform of the budget management system (Guofa [2021] No. 5)**
http://www.gov.cn/zhengce/content/2021-04/13/content_5599346.htm
- ▶ **Opinions on the work for stabilizing employment, supporting high-quality economic development and further promoting the reform of "Delegate Power, Streamline Administration and Optimize Government Services" (Guobanfa [2021] No. 10)**
http://www.gov.cn/zhengce/content/2021-04/15/content_5599655.htm
- ▶ **Guiding opinions on promoting the high-quality development of intellectual property rights of scientific research organizations (Guozhifayunzi [2021] No. 7)**
http://www.gov.cn/zhengce/zhengceku/2021-04/15/content_5599676.htm
- ▶ **PN regarding public opinion consultation on the "Measures for the Classification of Venture Capital Entities"**
https://hd.ndrc.gov.cn/yjzx/yjzx_add.jsp?SiteId=358
- ▶ **Order on the "Administrative Measures of the PRC for the Safety of Imported and Exported Food" (GAC Order [2021] No. 249)**
<http://www.customs.gov.cn/customs/302249/2480148/3619657/index.html>
- ▶ **Order on the "Regulations of the PRC on the Registration and Administration of Overseas Manufacturers of Imported Food" (GAC Order [2021] No. 248)**
<http://www.customs.gov.cn/customs/302249/2480148/3619591/index.html>

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