

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 implementation of notification commitment mechanism on certain certification items to further improve tax related services (STA PN [2021] No. 21)**

Synopsis

To streamline administration and optimize tax services, the State Taxation Administration (STA) released STA PN [2021] No. 21 ("PN 21") on 30 June 2021 for implementation of notification commitment mechanism ("hereinafter referred to as the "Mechanism") on six certification items from 1 July 2021.



Key features of PN 21 are as follows:

Mechanism

According to PN 21, when applying for the relevant tax-related matters (as specified in Attachment I of PN 21), after receiving notifications from the tax authorities regarding the relevant responsibilities/liabilities for adopting the Mechanism, a taxpayer may be exempted from six types of certifications if the taxpayer provides a written commitment that the requirements under relevant laws and regulations as informed by the tax authorities are already met, and is willing to bear the legal responsibility of false commitment.

For example, by adopting the Mechanism, a taxpayer shall not be required to provide audit reports of its overseas branches for its foreign tax credit. Instead, the taxpayer should commit to maintain the audit reports for future references and the tax authorities shall enhance ex-post inspection in this regard.

However, a taxpayer can still choose to provide relevant certifications for the application of relevant matters instead of adopting the Mechanism.

Exceptions

The following taxpayers are not allowed to adopt the Mechanism:

- ▶ Taxpayers that involve in significant tax violation and dishonesty cases (if they are removed from the notice board¹ and confirmed by supervising tax authorities, they shall be applicable for the Mechanism.)
- ▶ Taxpayers who made false commitments (if they make rectification or fulfill the relevant legal responsibilities, they would still be allowed to adopt the Mechanism.)

Legal responsibilities

Although the implementation of the Mechanism aims to simplify application documents and ease administrative burden of taxpayers, taxpayers should be aware of the relevant legal responsibilities before making commitments:

- ▶ If, during the concurrent inspections of the application, tax authorities find out that a taxpayer made commitments which are inconsistent with the facts, the taxpayer shall be required to provide the relevant supporting documents for the application.
- ▶ If, during the concurrent/ex-post inspections or daily supervision, tax authorities find out that a taxpayer made false commitments, the tax authorities shall order the taxpayer to make rectification within a prescribed deadline and impose punishment, etc. In case a suspected crime is involved, the case shall be further investigated by the judicial authorities for criminal liabilities.

The detailed catalog of certification items and standardized notification/commitment letters, etc. are announced via attachments of PN 21. Relevant taxpayers are encouraged to read PN 21 for more details.

¹ According to STA PN [2018] No. 54 ("PN 54", i.e., PN regarding the "Publication Measures of Significant Tax Violation and Dishonesty Cases"), for information publication of a case of significant tax violation and dishonesty, such information shall be removed from the notice board after three years of publication.

You can click this link to access the full content of PN 21:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5166619/content.html>

You can click this link to access the full content of STA's official interpretation on PN 21:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5166618/content.html>

You can click this link to access the full content of PN 54:

<http://www.chinatax.gov.cn/n810341/n810755/c3914071/content.html>

- ▶ **PN regarding matters related to consolidated returns for filing of Value-added Tax (VAT), Consumption Tax (CT) and surcharges (STA PN [2021] No. 20)**

Synopsis

To enhance the reform on tax collection and administration, on 9 July 2021, the STA released STA PN [2021] No. 20 ("PN 20") to clarify matters related to consolidated returns for filing of VAT, CT and surcharges.

Key features of PN 20 are as follows:

- ▶ VAT shall be filed together with the relevant City Construction Tax (CCT), Education Surcharges (ES) and Local ES in the VAT and local levies return for general VAT taxpayers (《增值税及附加税费申报表(一般纳税人适用)》), the VAT and local levies return for small scale VAT taxpayers (《增值税及附加税费申报表(小规模纳税人适用)》), or the VAT and local levies return for prepayment (《增值税及附加税费预缴表》); and
- ▶ CT and the relevant CCT, ES and Local ES shall be filed in the CT and local levies return (《消费税及附加税费申报表》).

PN 20 shall become effective from 1 August 2021, the circulars and articles listed in Attachment 8 of PN 20 shall be revoked simultaneously. Relevant taxpayers are encouraged to read PN 20 for more details.

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

<http://www.chinatax.gov.cn/chinatax/n359/c5166427/content.html>

Business circulars

- ▶ **Implementation plan for deepening the reform of “Separating Permits from Business Licenses” and further stimulating the vitality of market entities**
- ▶ **Notice regarding the “Implementation Plan of the Customs on Deepening the Reform of ‘Separating Permits from Business Licenses’ and Further Stimulating the Vitality of Market Entities” (Shufafa [2021] No. 60)**

Synopsis

In order to implement Guofa [2021] No. 7 (“Circular 7”, i.e., Notice issued by the State Council regarding deepening the reform of “Separating Permits from Business Licenses”) and further stimulating the vitality of market entities, the Ministry of Commerce (MOFCOM) and General Administration of Customs (GAC) released implementation plans for deepening the reform of “Separating Permits from Business Licenses” and further stimulating the vitality of market entities (hereinafter referred to as the “MOFCOM Implementation Plan” and “GAC Implementation Plan”) on 12 July 2021 and 30 June 2021, respectively.

Key features of the two Implementation Plans are summarized respectively as follows:

MOFCOM Implementation Plan

- ▶ Reform measures on a nationwide basis (corresponding to the “Reform List of Business Licensing Items set by the Central Government (2021 National Version)” (hereinafter referred to as the “2021 National Reform List”))

Promote the approval system reform for the permits of thirteen business items including the qualification approval of petroleum products wholesalers, registration of foreign trade operators and qualification approval of foreign labor service cooperation, etc. in four different ways (“the four ways”), including: directly removing the approval requirement, replacing approval with record filing, implementing the notification commitment mechanism and optimizing services for applications.

- ▶ Reform measures in the pilot free trade zones (PFTZs) (corresponding to the “Reform List of Business Licensing Items set by the Central Government (2021 PFTZ Version)”)

Further enhance the pilot reform in the PFTZs for the permits of four business items including the registration of foreign trade operators, the approval of the right to supply livestock and poultry to Hong Kong and Macao, the permit for engaging in auction business, and qualification approval of foreign labor service cooperation in the four ways.

GAC Implementation Plan

- ▶ From 1 July 2021, enhance the approval system reform for the customs permits of business items that are incorporated into the 2021 National Reform List so as to realize the full coverage of list-base administration and meanwhile further strengthen the pilot reform in some areas in which port health permits (involving public places) are issued.
- ▶ Promote the approval system reform in the four ways.
- ▶ Further promote the supervision model of “Random Inspection and Public Release²” and implement differentiated supervision measures according to the credit rating of enterprises.

Relevant parties are encouraged to read the MOFCOM Implementation Plan and GAC Implementation Plan for more details.

² The model which was introduced by the State Council in 2015 comprises inspections of randomly selected entities by randomly selected inspectors and the public release of inspection results.

You can click this link to access the full content of the MOFCOM Implementation Plan:

<http://www.mofcom.gov.cn/article/h/redht/202107/20210703175900.shtml>

You can click this link to access the full content of the GAC Implementation Plan:

<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3750084/index.html>

You can click this link to access the full content of Circular 7:

http://www.gov.cn/zhengce/content/2021-06/03/content_5615031.htm?ivk_sa=1024105d

Customs circular

► Notice regarding the “Provisional Measures of the Customs on Tax Collection and Administration of Domestic Sales of Value-added Goods in the Yangpu Free Trade Port Area” (Shushuihan [2021] No. 131)

Synopsis

To implement the Overall Plan for the Construction of Hainan Free Trade Port (hereinafter referred to as the “Plan”) and give full play to the leading role of Yangpu Free Trade Port Area (hereinafter referred to as “Yangpu”), on 8 July 2021, the GAC released the provisional measures of the Customs on tax collection and administration of domestic sales of value-added goods in Yangpu (hereinafter referred to as the “Provisional Measures”) via Shushuihan [2021] No. 131.

Key features of the Provisional Measures are as follows:

General rules	Details
<p><u>Customs Duty (CD) Exemption</u></p> <p>According to the Plan and as further specified in the Provisional Measures, products produced by enterprises engaging in encouraged industries in Yangpu are exempt from import CD when they are sold to other areas of Mainland China through the “second line”³ (hereinafter referred to as “domestic sales”), if:</p> <ul style="list-style-type: none"> ► The products do not include any import materials; or ► The products include import materials but the domestic processing in Yangpu accounts for 30% or above added value (hereinafter referred to as a “30% value-added threshold”). <p>However, domestic sales of such products shall still be subject to import-level VAT and CT (if applicable).</p>	<p><u>Qualifying enterprises</u></p> <p>Enterprises engaging in encouraged industries as prescribed in the Catalog of Encouraged Industries in Hainan Free Trade Port (hereinafter referred to as the “Hainan Catalog”) with their revenue derived from the encouraged industries accounts for 60% or above of their total revenue.</p> <p>These enterprises should register in Yangpu with independent legal status and complete the required record filing with the relevant government authority of Yangpu.</p> <p><u>Determination of the 30% value-added threshold</u></p> <p>The 30% value-added threshold means that after the manufacturing/processing procedures by the qualifying enterprises in Yangpu, the value-added portion of the products reaches or exceeds 30% of the total value of the import raw materials and materials domestically purchased outside Yangpu.</p> <p>The detailed calculation formula of the 30% value-added threshold is set out in the Provisional Measures.</p>

General rules (cont'd)	Details (cont'd)
	<p><u>Exemptions</u></p> <p>Even if the 30% value-added threshold is met, the CD exemption shall not be allowed if one of the following conditions met:</p> <ul style="list-style-type: none"> ▶ The import materials are under the tariff quota administration; ▶ The processing of the products in Yangpu only includes one or several minor processes such as mixing, repackaging, split/combination packaging, sharpening, simple grinding/cutting, etc.; ▶ Other conditions where import CD should be levied. <p><u>Election policy on CD collection on domestic sales</u></p> <p>For products produced by qualifying enterprises and not met the 30% value-added threshold, the election policy on CD collection⁴ may be applied.</p>

The Provisional Measures also stipulate the administration of enterprises/products and the declaration of goods to be sold domestically in detail. Relevant businesses are encouraged to read the Provisional Measures for more details.

The Provisional Measures shall become effective once the Yangpu Public Information Service Platform and Haikou Customs Information Database are officially launched and valid until 31 December 2024.

³ The second line refers to the boundaries between the special customs supervisory areas and other areas in Mainland China.

⁴ According to Caiguanshui [2016] No. 40 ("Circular 40", i.e., Notice regarding expansion of scope of the pilot run of the election policy on CD collection on domestic sales of goods) and MOF/GAC/STA PN [2020] No. 20 ("PN 20", i.e., PN regarding expanding the pilot run scope of the election policy on CD collection on domestic sales of goods), enterprises in all special customs supervisory areas may apply to the election policy on CD collection, which means that for goods manufactured or processed by enterprises established in the special customs supervisory areas and sold domestically, the enterprises can, subject to their applications, choose at their sole discretion to be subject to CD based on the imported materials of the products or their actual condition upon customs declaration and inspection. Import-level VAT and CT shall be collected according to the prevailing law. When the enterprises choose to pay CD based on imported materials, they shall also pay the interest on the deferred CD payment (关税税款缓征利息).

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

<http://www.customs.gov.cn/customs/302249/zfxqgk/zfxqgkml34/3758386/index.html>

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

http://www.gov.cn/zhengce/2020-06/01/content_5516608.htm

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

https://www.ndrc.gov.cn/xxqk/zcfb/ghxwj/202101/t20210129_1266472.html

You can click this link to access the full content of Circular 40:

<http://www.chinatax.gov.cn/n810341/n810755/c2234556/content.html>

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

<http://www.chinatax.gov.cn/chinatax/n810341/n810755/c5148445/content.html>

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

- ▶ **Notice regarding the "Catalog of Energy Saving & New Energy Vehicles Eligible for Preferential Vehicle and Vessel Tax Policies (28th Batch)", "Catalog of New Energy Vehicles Eligible for Vehicle Purchase Tax Exemption (44th Batch)", etc.**
http://www.caam.org.cn/chn/1/cate_2/con_5234199.html
- ▶ **Opinions on accelerating the development of new business models of foreign trade (Guobanfa [2021] No. 24)**
http://www.gov.cn/zhengce/content/2021-07/09/content_5623826.htm
- ▶ **Notice regarding the "Action Plan on the Application of 5G (2021-2023)" (Gongxinbuliantongxin [2021] No. 77)**
http://www.gov.cn/zhengce/zhengceku/2021-07/13/content_5624610.htm
- ▶ **Notice regarding certain matters related to the implementation of the import-level tax policies for supporting the development of science popularization during the 14th Five-Year Plan period (Shuiguanhan [2021] No. 54)**
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3732592/index.html>
- ▶ **Notice regarding certain matters related to the implementation of the import-level tax policies for supporting technology innovation during the 14th Five-Year Plan period (Shuiguanhan [2021] No. 68)**
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3765241/index.html>
- ▶ **PN regarding certain matters related to the approval of the sanitary quarantine for the entry and exit of special goods (GAC PN [2021] No. 52)**
<http://www.customs.gov.cn/customs/302249/2480148/3758248/index.html>
- ▶ **PN regarding the "Customs Clearance Instruction for the 2021 China International Import Expo (CIIE)" and the "Facilitating Measures of the China Customs for Supporting the 2021 CIIE" (GAC PN [2021] No. 54)**
<http://www.customs.gov.cn/customs/302249/2480148/3758462/index.html>
- ▶ **Notice regarding certain matters related to the implementation of the import-level tax policies for supporting the development of next-generation display industry for 2021-2030 (Shuiguanhan [2021] No. 59)**
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3732584/index.html>
- ▶ **Notice regarding certain matters related to the implementation of tax policies for Hangzhou 2022 Asian Games and Asian Paralympic Games (Shuiguanhan [2021] No. 67)**
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3756872/index.html>
- ▶ **Notice regarding the pilot survey for the 2021 cross-border e-commerce statistics (Tongjihan [2021] No. 52)**
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3756878/index.html>
- ▶ **PN regarding implementing the notification and commitment mechanism for residence certification and some other certification items (GAC PN [2021] No. 56)**
<http://www.customs.gov.cn/customs/302249/2480148/3765150/index.html>



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