

# 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 certain matters related to the application of simplified procedures for unilateral advance pricing arrangement (STA PN [2021] No. 24)

### Synopsis

To further alleviate tax administrative burden of enterprises engaging in cross-border business operations, the State Taxation Administration (STA) announced STA PN [2021] No. 24 ("STA PN 24") regarding certain matters related to the application of simplified procedures for unilateral advance pricing arrangement (APA) on 26 July 2021.



Key features of PN 24 are as follows:

### Simplified procedures

According to PN 24, an enterprise with related party transactions in excess of RMB 40 million for each of the past three years before its APA application meets one of the prescribed requirements (e.g., the enterprise has entered into an APA for the past 10 tax years before lodging the application, and has been in compliance with the APA) can apply for adopting the simplified procedures for unilateral APA (hereinafter referred to as the "simplified procedures").

Under the simplified procedures, the general six steps (i.e., pre-filing meeting, intention discussion, analysis and evaluation, formal application, negotiation and conclusion of the arrangement, and execution monitoring) of APA application process as prescribed in STA PN [2016] No. 64 ("PN 64", i.e., PN on Issues Related to Improving the Administration of APAs) shall be reduced to three steps:



According to STA PN 24, the pre-filing meeting under the general steps is removed while steps of intention discussion, analysis and evaluation, and formal application shall be simplified to one step as evaluation application.

Upon receiving the application from an enterprise, the supervising tax authority shall issue a notification for tax matters (hereinafter referred to as the "notification") within 90 days and a conclusion should be reached within six months after the notification is issued.

However, it is further specified in STA's official interpretation that, in case a conclusion cannot be reached within the prescribed timeframe, the enterprise can only apply for unilateral APA under the general procedures. To reduce tax administrative burden of taxpayers, documents that have been submitted by applicants in the previous simplified procedures (not completed within the prescribed timeframe) would not need to be re-submitted.

### Exceptions

The simplified procedures are not applicable to unilateral APAs involving tax authorities of two or more provinces, autonomous regions, municipalities directly under the central government and cities with separate planning for the time being.

In addition, if an enterprise meets either one of the five conditions listed in STA PN 24 (e.g., the enterprise is currently under tax inspection or transfer pricing (TP) audit, or does not have TP documentation in place, etc.), the enterprise shall not be eligible for the simplified procedures.

### Effectiveness

STA PN 24 shall become effective on 1 September 2021. It is anticipated that the simplified procedures shall enhance the efficiency of unilateral APA negotiations for qualifying enterprises and thus reduce the administrative costs of both taxpayers and tax authorities.

EY TP team has issued a WeChat news article on 2 August 2021 (in Chinese only) regarding STA PN 24, 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 WeChat news article.

You can click this link to access the full content of STA PN 24:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5167276/content.html>

You can click this link to access the full content of STA's official interpretation on STA PN 24:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5167283/content.html>

You can click this link to access the full content of PN 64:

<http://www.chinatax.gov.cn/n810341/n810755/c2292979/content.html>

- PN regarding improving tax policies related to residential rental activities (MOF/STA/MOHURD PN [2021] No. 24)

## Synopsis

To support the residential rental businesses, on 15 July 2021, the Ministry of Finance (MOF), STA and Ministry of Housing and Urban-Rural Development (MOHURD) jointly released MOF/STA/MOHURD PN [2021] No. 24 (“PN 24”) to announce the following tax policies:

Lessor	Tax treatments	Criteria to be fulfilled	
		Lessee	Leasing property
Enterprises engaging in residential rental businesses - general Value-added tax (VAT) payers	VAT <ul style="list-style-type: none"> <li>A general VAT payer may choose to adopt the simplified VAT calculation method, i.e., subject to VAT at a collection rate of 5% with a reduced rate of 1.5% (the relevant input VAT shall be disallowed)<sup>1</sup>.</li> <li>The collection rate for provisional VAT filing in this regard is also reduced to 1.5%.</li> <li>Alternatively, a general VAT payer may still choose to adopt the general VAT calculation method at a VAT rate at 9% (the relevant input VAT can be deductible)<sup>2</sup>.</li> </ul>	Individuals	<ul style="list-style-type: none"> <li>Residential housing; or</li> <li>Indemnificatory housing (the applicable scope is specified in PN 24)</li> </ul>
Enterprises engaging in residential rental businesses – small-scale VAT payers	VAT <ul style="list-style-type: none"> <li>A small-scale VAT payer should adopt the simplified VAT calculation method, i.e., subject to VAT at a collection rate of 5%, that the rate is now reduced to 1.5%<sup>1</sup>.</li> <li>The collection rate for provisional VAT filing in this regard is also reduced to 1.5%.</li> </ul>		
Enterprises, entities, social organizations and other organizations	Real Estate Tax (RET) <ul style="list-style-type: none"> <li>The applicable RET rate shall be reduced to 4% from 12%.</li> </ul>		

Enterprises engaging in residential rental businesses as prescribed in PN 24 should have proper registrations or complete record filings with the competent departments under the MOHURD. PN 24 also specifies the relevant tax administration measures in this regard.

PN 24 shall become effective on 1 October 2021 and replace a previous RET rule as prescribed in Article 2.4 of Caishui [2008] No. 24 ("Circular 24", i.e., Notice regarding tax policies for low-rent housing, affordable housing and residential housing).

We have issued a WeChat news article (in Chinese) on 30 July 2021 to discuss PN 24 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 key words to access the full content of the alert.

<sup>1</sup>  $VAT\ payable = VAT\text{-}inclusive\ rental\ income / (1 + 5\%) \times 1.5\%$

<sup>2</sup>  $VAT\ payable = VAT\text{-}inclusive\ rental\ income / (1 + 9\%) \times 9\% - input\ VAT$

You can click this link to access the full content of PN 24:

[http://szs.mof.gov.cn/zhengcefabu/202107/t20210726\\_3740402.htm](http://szs.mof.gov.cn/zhengcefabu/202107/t20210726_3740402.htm)

You can click this link to access the full content of Circular 24:

<http://www.chinatax.gov.cn/n810341/n810765/n812171/n812720/c1192349/content.html>

- ▶ Guidelines on preferential tax policies for entrepreneurship and innovation
- ▶ Guidelines on preferential tax policies for small and micro-sized enterprises and self-employed industrial and commercial households
- ▶ Guidelines on preferential tax policies for integrated circuit and software enterprises

## Synopsis

In order to promote the transformation of old and new driving forces, upgrade the economic structure and expand employment, China has introduced 102 preferential tax policies and measures for the key fields of innovation and entrepreneurship as of June 2021. On 26 July 2021, the STA issued the Guidelines on Preferential Tax Policies for Entrepreneurship and Innovation (hereinafter referred to as the "Guidelines on Entrepreneurship and Innovation"). 102 preferential policies are classified and summarized according to three stages of entrepreneurship: start-up, growth and maturity. The preferential policies involve taxes including Corporate Income Tax (CIT), Individual Income Tax (IIT), VAT, Consumption Tax (CT), Urban Land Use Tax (ULUT), Vehicle Purchase Tax (VPT), RET and Stamp Duty (SD).

In recent years, China has also introduced a series of preferential tax policies to enhance tax and fee reduction so as to support the development of small and micro-sized enterprises and self-employed industrial and commercial households. On 26 July 2021, the STA released the Guidelines on Preferential Tax Policies for Small and Micro-sized Enterprises and Self-employed Industrial and Commercial Households (hereinafter referred to as the "Guidelines for Small and Micro-sized Enterprises"), in which 27 preferential policies are classified and summarized in three aspects: burden reduction, financing promotion and entrepreneurship assistance. The preferential policies involve taxes and fees including CIT, IIT, SD, Disabilities Employment Security Fund and Construction Fee for Cultural Undertakings.

Further, in order to promote the development of software enterprises and integrated circuit enterprises, China has also introduced a series of tax support policies for software enterprises and integrated circuit enterprises in recent years. On 26 July 2021, the STA released the Guidelines on Preferential Tax Policies for Integrated Circuit and Software Enterprises (hereinafter referred to as the "Guidelines for Software and Integrated Circuit Enterprises"), in which 20 preferential policies involving CIT and VAT are classified and summarized respectively for the two types of enterprises.

Relevant enterprises or individuals are advised to read the above-mentioned guidelines for more details so as to fully enjoy the preferential tax treatments. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of the Guidelines on Entrepreneurship and Innovation:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5167236/content.html>

You can click this link to access the full content of the Guidelines for Small and Micro-sized Enterprises:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5167234/content.html>

You can click this link to access the full content of the Guidelines for Software and Integrated Circuit Enterprises:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5167233/content.html>

- ▶ Special Administrative Measures of Hainan Free Trade Port for Cross-Border Trade in Services (Negative List) (2021 Version) (MOFCOM Order [2021] No. 3)

### Synopsis

On 23 July 2021, the Ministry of Commerce (MOFCOM) released the Special Administrative Measures of Hainan Free Trade Port (FTP) for Cross-Border Trade in Services (Negative List) (2021 Version) (hereinafter referred to as the "Negative List") via MOFCOM Order [2021] No. 3, which shall become effective on 26 August 2021.

The Negative List is China's first negative list in the field of cross-border trade in services. It contains 70 special administrative measures for overseas service providers in 11 categories and clarifies the national treatment, market access, local presence, and cross-border trade in financial services that overseas service providers engaged in cross-border trade in services (through cross-border delivery, overseas consumption, and movement of people) can enjoy.

Some noteworthy points about this Negative List are as follows:

- Unless otherwise specified, the Negative List only applies to overseas service providers providing services to market entities and individuals in Hainan FTP.
- The Negative List applies to Hainan FTP with a geographic scope of the whole island of Hainan.
- Areas outside those stipulated in the Negative List shall be regulated in accordance with the principle of consistent treatment on domestic and foreign services and service providers within Hainan FTP.
- Overseas service providers shall not engage in the cross-border trade of any of the services prohibited in the Negative List.
- Measures related to national security, public order, financial prudence, social services, human genetic resources, humanities and social science research and development, new cultural formats, aviation business rights, immigration and employment, as well as government functions that have not been included in the Negative List shall be implemented in accordance with prevailing regulations.
- Where there are more preferential arrangements for Hong Kong, Macao and Taiwan service providers to carry out cross-border trade in services, or where China has concluded or participated in international treaties and agreements with more preferential provisions for overseas service providers to carry out cross-border trade in services, measures shall be implemented in accordance with the corresponding regulations.

Relevant parties are advised to read the Negative List for more details and make strategic business planning. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of the Negative List:  
<http://www.mofcom.gov.cn/article/b/c/202107/20210703180049.shtml>

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

- ▶ PN regarding the cancellation of export tax refund for iron and steel products (MOF/STA PN [2021] No. 25)  
<http://www.chinatax.gov.cn/chinatax/n377/c5167237/content.html>
- ▶ PN regarding further adjusting the export tariffs on certain iron and steel products (Customs Tariff Commission PN [2021] No. 6)  
[http://gss.mof.gov.cn/gzdt/zhengcefabu/202107/t20210729\\_3741558.htm](http://gss.mof.gov.cn/gzdt/zhengcefabu/202107/t20210729_3741558.htm)

- ▶ Notice regarding the export tax refund rate database (2021C Version) (Shuizonghuolaohan [2021] No. 217)  
<http://www.chinatax.gov.cn/chinatax/n377/c5167238/content.html>
- ▶ Notice regarding the “Work Guidelines on Outward Investment and Cooperation of Digital Economy” (Shanghehan [2021] No. 335)  
<http://www.mofcom.gov.cn/article/b/bf/202107/20210703179765.shtml>
- ▶ Notice regarding continuously rectifying and regulating the real estate market (Jianfang [2021] No. 55)  
[http://www.mohurd.gov.cn/wjfb/202107/t20210723\\_250914.html](http://www.mohurd.gov.cn/wjfb/202107/t20210723_250914.html)
- ▶ Notice regarding the “Administrative Measures on Major Issues Reporting of Non-banking Payment Institutions” (Yinfa [2021] No. 198)  
<http://www.pbc.gov.cn/tiaofasi/144941/3581332/4301558/index.html>
- ▶ Notice regarding the “Template of Administrative Penalty Documents for Market Supervision and Administration (2021 Revised Version)” (Guoshijianfafa [2021] No. 42)  
[http://gkml.samr.gov.cn/nsjg/fgs/202107/t20210723\\_333003.html](http://gkml.samr.gov.cn/nsjg/fgs/202107/t20210723_333003.html)
- ▶ Notice regarding the “Guidelines on Professional Ethics for Tax Practitioners - Professional Competence (for Trial Implementation)” and the issuance of five practice codes (Zhongshuixiefa [2021] No. 54)  
<http://www.cctaa.cn/zczd/zxwj/2021-07-23/CCON20900000027493.html>
- ▶ Notice regarding public opinion consultation on the revisions to the “Catalog of Technologies Prohibited or Restricted from Import by China”  
<http://www.mofcom.gov.cn/article/au/biaoz/202107/20210703179776.shtml>
- ▶ Notice regarding the implementation plan for deepening the reform of “Separating Permits from Business Licenses” and further stimulating the vitality of market entities (Yinbaojianfa [2021] No. 25)  
[http://www.gov.cn/zhengce/zhengceku/2021-07/27/content\\_5627819.htm](http://www.gov.cn/zhengce/zhengceku/2021-07/27/content_5627819.htm)
- ▶ Notice regarding promoting and replicating the innovative measures and experience of the Shenzhen Special Economic Zone (Fagaidiqu [2021] No. 1072)  
[http://www.cnbayarea.org.cn/policy/policy%20release/policies/content/post\\_536514.html](http://www.cnbayarea.org.cn/policy/policy%20release/policies/content/post_536514.html)
- ▶ Notice regarding deepening the reform of “Separating Permits from Business Licenses” and further stimulating the vitality of market entities for the bookkeeping agency industry (Caibankuai [2021] No. 20)  
[http://kjs.mof.gov.cn/gongzuotongzhi/202107/t20210728\\_3741074.htm](http://kjs.mof.gov.cn/gongzuotongzhi/202107/t20210728_3741074.htm)
- ▶ Notice regarding the pilot environmental impact assessment of the carbon emissions of construction projects in key industries (Huanbanhuanpinghan [2021] No. 346)  
[http://www.mee.gov.cn/xxgk2018/xxgk/xxgk06/202107/t20210727\\_851553.html](http://www.mee.gov.cn/xxgk2018/xxgk/xxgk06/202107/t20210727_851553.html)
- ▶ Development plan of the Customs during the 14th Five-year Plan period  
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/3789429/index.html>
- ▶ Administrative Regulations on Reinsurance Business (CBIRC Order [2021] No. 8)  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=999118>



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APAC no. 03012898  
ED None.

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