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# 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 policies on Corporate Income Tax (CIT) deductions for equipment/devices purchases of small, medium and micro-sized enterprises (MOF/STA PN [2022] No. 12)**

### Synopsis

Further to the State Council executive meeting (hereinafter referred to as "the meeting") on 14 February 2022, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released MOF/STA PN [2022] No. 12 ("PN 12") on 2 March 2022 to specify the accelerated depreciation policy for equipment/devices newly purchased by small, medium and micro-sized enterprises (hereinafter referred to as "SMEs").



Key features of PN 12 are as follows:

- ▶ Accelerated depreciation policy for equipment/devices (i.e., fixed assets other than real properties or constructions) newly purchased<sup>1</sup> by qualifying SMEs<sup>2</sup> with a unit value exceeding RMB5 million:

Types of equipment/devices	Years of depreciation as prescribed in the prevailing CIT rules	Accelerated depreciation policy
Electronic equipment	3 years	One-time CIT deduction of the whole amount is allowed
Means of transport other than aircraft, trains, and vessels	4 years	An upfront CIT deduction of 50% is allowed and the remaining 50% shall be depreciated over the prescribed years of depreciation
Appliances, tools, and furniture, etc. related to production and business operation	5 years	
Aircraft, trains, vessels, machinery, mechanical and other production equipment	10 years	

- ▶ Any tax losses due to the upfront CIT deduction can be carried forward for the following five tax years (or the extended loss carry-forward period if applicable, e.g., for SMEs recognized as High-and-New Technology Enterprises or Technology-based SMEs, their losses incurred in the previous five years may be carried forward for up to 10 years.)

PN 12 is effective from 1 January 2022 to 31 December 2022. Qualifying SMEs may start to adopt the above accelerated depreciation policy in the provisional CIT filing after the promulgation of PN 12, i.e., 2 March 2022. Any equipment/devices purchased in 2022 before the promulgation of PN 12 may start to apply the accelerated depreciation policy in the future provisional CIT filing or the annual CIT filing. Qualifying SMEs that choose not to adopt the accelerated depreciation policy in 2022 shall be considered forfeiting the tax preference. Qualifying SMEs should therefore carefully consider whether it is reasonable to choose such preference this year and act appropriately.

<sup>1</sup> Under current tax rules, the term “newly purchased equipment and devices” include newly acquired equipment and devices through means of purchase (including new purchase of used equipment and devices) and self-construction by taxpayers. In respect of definition of this term prescribed in PN 12, since the official interpretation of PN 12 is not yet available, taxpayers may seek guidance from the supervising tax authorities for their interpretation.

<sup>2</sup> Qualifying SMEs as prescribed in PN 12 should not be engaging in any restricted or prohibited industries of China, and should meet the following criteria:

- ▶ For SMEs engaging in information transmission, construction, leasing and commercial services, their headcount should be less than 2,000 people, or their revenue should be less than RMB1 billion, or their total assets should be less than RMB1.2 billion.
- ▶ For SMEs engaging in real estate development, either their revenue should be less than RMB2 billion, or their total assets should be less than RMB100 million.
- ▶ For SMEs engaging in other industries, either their headcount should be less than 1,000 people, or their revenue should be less than RMB400 million.

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

[http://szs.mof.gov.cn/zhengcefabu/202203/t20220304\\_3792671.htm](http://szs.mof.gov.cn/zhengcefabu/202203/t20220304_3792671.htm)

▶ **PN regarding Value-added Tax (VAT) policies for promoting the recovery and development of the service industries in difficulty (MOF/STA PN [2022] No. 11)**

**Synopsis**

To promote the recovery and development of the service industries in difficulty, the MOF and STA jointly released MOF/STA PN [2022] No. 11 ("PN 11") on 3 March 2022 to announce certain preferential VAT policies for taxpayers in these industries.

Key features of PN 11 include:

- ▶ Extend the implementation of "super input VAT credit policy" as prescribed in MOF/STA/GAC PN [2019] No. 39 ("PN 39", i.e., PN regarding certain policies for deepening the reform of VAT) and MOF/STA PN [2019] No. 87 ("PN 87", i.e., PN regarding clarifications on the "super input VAT credit" policy for the lifestyle service industry) to 31 December 2022:
  - ▶ General VAT taxpayers engaging in production services (i.e., taxpayers who derive revenues at least 50% from the provision of postal services, telecommunication services, and modern services against their total revenue) shall be given an extra 10% "super input VAT credit".
  - ▶ General VAT taxpayers engaging in lifestyle services (i.e., taxpayers who derive revenues at least 50% from the provision of culture and sports services, educational and medical services, tourism and entertainment services, catering and accommodation services, daily services for residents, and other lifestyle services against their total revenue) shall be given an extra 15% "super input VAT credit".
- ▶ From 1 January 2022 to 31 December 2022, branches of airline and railway enterprises shall not be required to complete provisional VAT filings. Any VAT paid in the VAT filing in February 2022 before the promulgation of PN 11 shall be refunded.
- ▶ From 1 January 2022 to 31 December 2022, taxpayers shall be exempt from VAT for their provision of public transportation services. Any VAT paid before the promulgation of PN 11 that should be exempt according to PN 11 may be refunded (VAT special invoices issued should be recovered) or set off against VAT payable for future months.

Relevant taxpayers are encouraged to read PN 11 as well as PNs 39 and 87 for 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 PN 11:

[http://szs.mof.gov.cn/zhengcefabu/202203/t20220304\\_3792526.htm](http://szs.mof.gov.cn/zhengcefabu/202203/t20220304_3792526.htm)

You can click this link to access the full content of PN 39:

<http://www.chinatax.gov.cn/n810341/n810755/c4160283/content.html>

You can click this link to access the full content of PN 87:

<http://www.chinatax.gov.cn/chinatax/n359/c5137752/content.html>

▶ **PN regarding collection and administration matters related to further implementing the tax and fee reduction and exemption policies of "six taxes and two fees" for small and micro-sized enterprises (STA PN [2022] No. 3)**

**Synopsis**

Further to MOF/STA PN [2022] No. 10 ("PN 10", i.e., PN regarding further implementing tax and fee reduction and exemption policies of "six taxes and two fees" for small-sized enterprises with meager profit), the STA released STA PN [2022] No. 3 ("PN 3") on 4 March 2022 to specify the relevant collection and administration matters in this regard.

PN 3 distinguishes the different criteria for small-scale VAT taxpayers, small-sized enterprises with meager profit and self-employed industrial and commercial households to apply for the reduction and exemption policies of “six taxes and two fees”.

In addition, PN 3 also announces four revised returns, e.g., Appendix 5 for VAT and relevant taxes/fees returns (for general VAT taxpayers), etc. Accordingly, taxpayers may automatically enjoy the relevant taxes and fees reduction/exemption by just choosing their status (i.e., small-scale VAT taxpayers, small-sized enterprises with meager profit or self-employed industrial and commercial households) and the applicable period in the returns. Other than that, these taxpayers shall not be required to submit any supporting documents.

Relevant taxpayers are encouraged to read PNs 3 and 10 to learn more about the details.

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

<http://www.chinatax.gov.cn/chinatax/n364/c5173291/content.html>

You can click this link to access the full content of STA's official interpretation of PN 3:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5173292/content.html>

You can click this link to access the full content of PN 10:

[http://szs.mof.gov.cn/zhengcefabu/202203/t20220303\\_3792359.htm](http://szs.mof.gov.cn/zhengcefabu/202203/t20220303_3792359.htm)

► **Notice regarding the preferential Individual Income Tax (IIT) policy for the Guangdong-Macao In-Depth Cooperation Zone in Hengqin (Hengqin) (Caishui [2022] No. 3)**

**Synopsis**

Further to the Overall Plan for Building a Guangdong-Macao In-depth Cooperation Zone in Hengqin (hereinafter referred to as the “Plan”), the MOF and STA jointly issued Caishui [2022] No. 3 (“Circular 3”) regarding the preferential IIT policy for Hengqin on 10 January 2022.

Circular 3 reiterated the following preferential IIT treatment announced in the Plan:

- For domestic and overseas high-end or urgently needed talents working in Hengqin, the part of their IIT burden exceeding 15% shall be exempted (the list of high-end and urgently needed talents shall be announced separately.)
- IIT imposed on Macao residents working in Hengqin that exceeds the tax burden in Macao will also be exempted.

According to Circular 3, the above IIT exemption shall apply to the individual's consolidated income (i.e., the sum of salaries and wages, remuneration for personal services, authors' remuneration and royalties) that are derived from Hengqin as well as operating income and any talent related subsidy income recognized by the Hengqin government authorities.

The abovementioned preferential IIT policy shall be applicable during the annual IIT filing. It means that the withholding agents shall withhold IIT in full and the talents would apply for refunds in the annual IIT filing.

Circular 3 is valid from 1 January 2021 to 31 December 2025.

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

[http://czt.gd.gov.cn/tzgg/content/post\\_3876408.html](http://czt.gd.gov.cn/tzgg/content/post_3876408.html)

- ▶ **Notice regarding the “Work Guidelines on the Assessment of Technology-based SMEs (TSMEs)” (Guokehuozi [2022] No. 67)**
- ▶ **Notice regarding the assessment of TSMEs in 2022 (Guokehuozi [2022] No. 68)**

### Synopsis

On 4 March 2022, the Torch High Technology Industry Development Center (“Torch Center”) of the Ministry of Science and Technology (MOST) released the “Work Guidelines on the Assessment of TSMEs” (hereinafter referred to as the “Guidelines”) via Guokehuozi [2022] No. 67 (“Circular 67”) to clarify certain matters related to the assessment of TSMEs.

Key features of Circular 67 are as follows:

### Competent authorities

The competent authorities of the assessment service for TSMEs include the Torch Center of the MOST, provincial science and technology administrations, prefecture or county-level science and technology administrations, administrative committees of national high and new technology zones, etc.

### Assessment process

The TSMEs assessment is conducted online, including service platform registration, filling in information, self-assessment, confirmation, list publicity and enterprise announcement.

### Assessment conditions

The Guidelines specify the conditions that qualifying TSMEs must meet, including registration status, number of employees, annual sales, total assets, industry type, etc. The assessment indicators and relevant explanations are also described in the Guidelines.

### Supervision and administration

Qualifying TSMEs shall fulfill the commitment to accuracy, authenticity, legality, validity and non-confidentiality of the submitted information and materials. False information will be recorded in the integrity archives of the National Science and Technology Small and Medium-sized Enterprise Information Database.

Competent provincial science and technology authorities shall carry out random inspection of the information of qualifying TSMEs every year. The list of enterprises subject to inspection shall be randomly determined, and the random inspection ratio shall not be less than 5%.

In addition, the Torch Center also released Guokehuozi [2022] No. 68 (“Circular 68”) on 9 March 2022 to clarify some key measures related to the assessment of TSMEs in 2022:

- ▶ Implement the mechanism of “strict standards, quick review and frequent publicity”, strengthen the information exchange with the authorities of industry and information technology, taxation and market regulation and provide efficient services and strictly control the quality of TSMEs.
- ▶ Strengthen the sense of responsibility and integrity of TSMEs and standardize the supervision of assessment services.
- ▶ Ensure that qualifying TSMEs are recognized in a timely manner so as to enjoy preferential tax policies (e.g., tax losses may be carried forward by qualifying TSMEs up to 10 years).



In addition to the abovementioned up to 10 years' tax losses carried forward preferential treatment, according to the Report on the Work of the Government (2022), the super deduction percentage for eligible research and development (R&D) expenses of qualifying TSMEs will be raised from 175% to 200%. Currently the 200% super deduction percentage applies only to manufacturing enterprises. Relevant TSMEs are advised to read Circulars 67 and 68 for details and fully leverage the benefits. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 67:

<http://www.chinatorch.gov.cn/kjb/tzgg/202203/8317863620014e3f923e0d8843d2a6df.shtml>

You can click this link to access the full content of Circular 68:

<http://www.chinatorch.gov.cn/kjb/tzgg/202203/657b12c45c2847b7898d82f41a45b73d.shtml>

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

- ▶ **The Administrative Measures of Authorization for the Registration of Foreign Investment Enterprises (SAMR Order [2022] No. 51)**  
[https://gkml.samr.gov.cn/nsjg/fgs/202203/t20220302\\_340102.html](https://gkml.samr.gov.cn/nsjg/fgs/202203/t20220302_340102.html)
- ▶ **Notice regarding the first batch of imported science popularization products eligible for tax exemption during the 14th Five-year Plan period (Guokefacai [2022] No. 26)**  
[http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fqzc/gfxwj/gfxwj2022/202203/t20220310\\_179699.html](http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fqzc/gfxwj/gfxwj2022/202203/t20220310_179699.html)
- ▶ **Notice regarding the "Implementation Plan on the East-West Science and Technology Cooperation During the 14th Five-year Plan Period" (Guokefaqu [2022] No. 25)**  
[http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fqzc/gfxwj/gfxwj2022/202203/t20220304\\_179644.html](http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fqzc/gfxwj/gfxwj2022/202203/t20220304_179644.html)
- ▶ **Notice regarding strengthening financial services for new citizens (Yinbaojianfa [2022] No. 4)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1041453&itemId=925&generaltype=0>



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