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*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) issued by the Hebei Provincial Tax Service, State Taxation Administration (STA) regarding adjusting the gross profit margins of real estate development and operation business for Corporate Income Tax (CIT) purpose (Hebei Provincial Tax Service, STA PN [2022] No. 5)
- ▶ PN issued by the Hangzhou Municipal Tax Service, STA regarding matters related to the gross profit margins for sales of unfinished products by real estate enterprises
- ▶ PN issued by the Tianjin Municipal Tax Service, STA regarding matters related to the gross profit margins of real estate development and operation business for CIT purpose (Tianjin Municipal Tax Service, STA PN [2022] No. 6)

Synopsis

According to the prevailing Guoshuifa [2009] No. 31 ("Circular 31", i.e., Measures for the CIT policies for real estate development enterprises), revenue derived by a real estate development enterprise (hereinafter referred to as the "enterprise") from selling unfinished real estate development projects during presale should be included in the provisional quarterly/monthly CIT filing of the current period based on the estimated gross profits.

Upon completion of the real estate projects, the enterprise should promptly complete the following actions:

- Compute the tax-deductible costs and the actual gross profits of the abovementioned sales revenue.
- Include the difference between actual gross profits and corresponding estimated gross profits (i.e., the ones already reported and taxed) in the current year's taxable income of the abovementioned project and combine it with the other projects of the enterprise.

Furthermore, during the annual CIT filing, the enterprise should provide a report on the adjustment of the difference between actual gross profits and estimated gross profits and other related documents to be required by the tax authorities.

Accordingly, it is prescribed in Circular 31 that the gross profit margin of sales of unfinished real estate development projects of enterprises shall be determined by tax authorities at the provincial/autonomous region or centrally administered municipal level.

Recently, to guide the healthy development of real estate industry, certain tax authorities at the provincial/municipal level have released PNs to update the gross profit margins for the calculation of estimated gross taxable profits for sales of unfinished properties. We summarized the PNs released by Hebei Provincial Tax Service, Hangzhou Municipal Tax Service, and Tianjin Municipal Tax Service, STA in the table below for your easy reference:

Categories	Hebei	Hangzhou	Tianjin
Areas where governments of provincial, autonomous region/centrally administered municipalities and municipalities with unilateral planning are located	Real estate projects located in the urban/suburban areas of Shijiazhuang - gross margin should not be less than 15%	Real estate projects located in the urban/suburban areas of Hangzhou - gross margin should be 15%	Real estate projects other than affordable housing, price-capped housing or renovation of decrepit housing - gross margin should be 15%
Urban/ suburban areas of prefectures and prefectural cities	Real estate projects located in urban/suburban areas of prefectures and prefectural cities of Hebei Province - gross margin should not be less than 10%	N/A	N/A
Other areas except for the above	Real estate projects located in other areas of Hebei Province - gross margin should not be less than 5%	Real estate projects located in other areas of Hangzhou - gross margin should be 5%	N/A
Affordable housing, price-capped housing and renovation of decrepit housing	Gross margin should not be less than 3%	Gross margin should be 3%	Gross margin should be 3%
Effectiveness	Effective from 1 October 2022	Effective from 1 January 2022	Effective from 1 January 2022

It is understood that the above adjustments have, to a certain degree, reduced the CIT payable of real estate developers during their provisional filings, e.g., according to the official interpretation of the PN released by the Hangzhou Municipal Tax Service, STA, the estimated gross margin for certain county-level city and counties shall be reduced by 5%. This adjustment would allow certain real estate developers to smoothen their cash flow pressure as many are experiencing a downturn at the moment.

As CIT is calculated on an annual basis, most local tax authorities, such as Hangzhou and Tianjin Tax Services, STA decided to make retroactive adjustments which took effect from 1 January 2022. However, certain local tax authorities, such as Hebei Provincial Tax Service, STA chose to adopt the adjustments from close to the new adjustment date, i.e., 1 October 2022, the fourth quarter. Relevant enterprises should stay alert to the PNs released or to be released by their supervising tax authorities for their further action. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Hebei Provincial Tax Service, STA PN [2022] No. 5:
http://hebei.chinatax.gov.cn/hbsw/mob/zcwj/mwj/202209/t20220920_3177407.html

You can click this link to access the full content of PN issued by the Hangzhou Municipal Tax Service, STA regarding matters related to the gross profit margins for sales of unfinished products by real estate enterprises (hereinafter referred to as the "Hangzhou PN"):
http://zhejiang.chinatax.gov.cn/art/2022/9/20/art_19757_563313.html

You can click this link to access the full content of the official interpretation on the Hangzhou PN:
http://zhejiang.chinatax.gov.cn/art/2022/9/20/art_24076_563314.html

You can click this link to access the full content of Tianjin Municipal Tax Service, STA PN [2022] No. 6:
<https://mp.weixin.qq.com/s/B2ly-4x-xExz9vHwUwxPcw>

You can click this link to access the full content of Circular 31:
<http://www.chinatax.gov.cn/chinatax/n362/c8585/content.html>

Business circular

- Measures of Shenzhen on the Recognition and Administration of Technologically Advanced Service Companies (TASCs) (Shenkejichuangxingui [2022] No. 4)

Synopsis

Previously, according to Caishui [2017] No. 79 ("Circular 79", i.e., Notice regarding expanding the preferential CIT policies related to TASCs on a nationwide basis) and Caishui [2018] No. 44 ("Circular 44", i.e., Notice regarding expanding the preferential CIT policies related to TASCs in pilot areas for innovative development of service trade on a nationwide basis), recognized TASCs in China shall be entitled to a reduced CIT rate of 15%.

Accordingly, on 5 September 2022, the Shenzhen Science and Technology Innovation Committee, Shenzhen Finance Bureau, Shenzhen Tax Service, STA, Commerce Bureau of Shenzhen Municipality and Development and Reform Commission of Shenzhen Municipality jointly released the "Measures of Shenzhen on the Recognition and Administration of TASCs" (hereinafter referred to as the "Shenzhen Measures") via Shenkejichuangxingui [2022] No. 4 to set out the scope of TASCs recognition and qualifying criteria for TASCs in Shenzhen.

Key features of the Shenzhen Measures include:

Scope of TASCs recognition

- Information Technology Outsourcing services (ITO)
- Technical Business Process Outsourcing services (BPO)
- Technical Knowledge Process Outsourcing services (KPO)
- Service Trade Category

Qualifying criteria for TASCs

All the following criteria should be met for qualifying TASCs:

- Being a legal entity registered in Shenzhen.
- Engaging in one or more technologically advanced services as prescribed in the Scope of Recognition of Technologically Advanced Services (i.e., attachment of the Shenzhen Measures, hereinafter referred to as the "recognition scope"), adopting advanced technologies or possessing strong research and development capacities.
- With more than 50% of its total headcount from graduates of at least an associate degree
- With more than 50% of its annual gross income¹ derived from services as prescribed in the recognition scope
- With no less than 35% of its annual gross income¹ derived from offshore outsourcing services²

Validity of the TASC status

The TASC status is valid for three years and enterprises shall be entitled to the reduced CIT rate from the year of recognition. A TASC should re-apply for the TASC status in the last valid year, otherwise its TASC status would expire automatically.

The Shenzhen Measures became effective on 7 September 2022. Authorities in other areas have also released their local recognition and administration measures of TASCs, such as Guangdong province and Yunnan province. Relevant parties are advised to read the local recognition and administration measures for details and fully leverage the benefits offered.

¹ *The annual gross income for the application and recognition of TASCs refers to the annual gross income minus non-taxable income. An enterprise should correctly account for income derived from TASC service business and its gross income. Besides, the audited financial statements for the last fiscal year issued by a third-party auditing firm should be provided.*

² *"Revenue derived from offshore outsourcing services" refers to revenue derived by a TASC or its direct subcontractor under an outsourcing service agreement entered by the TASC and an overseas entity for provision of ITO, BPO and KPO services and service trade category as prescribed in the Recognition Scope.*

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

http://www.sz.gov.cn/zfgb/2022/gb1257/content/post_10127164.html

You can click this link to access the full content of Circular 79:

<http://hd.chinatax.gov.cn/guoshui/action/GetArticleView1.do?id=8133464&flag=1>

You can click this link to access the full content of Circular 44:

http://www.mof.gov.cn/mofhome/shuizhengsi/zhengwuxinxi/zhengcefabu/201805/t20180528_2910281.html

Customs circular

- Measures of the General Administration of Customs (GAC) for promoting comprehensive cooperation among Guangdong, Hong Kong and Macau by further deepening the open-up of Guangzhou Nansha (Shuzonghan [2022] No. 143)

Synopsis

To further implement the "Overall Plan for Promoting Comprehensive Cooperation Among Guangdong, Hong Kong and Macau by Further Deepening the Open-up of Guangzhou Nansha" ("Plan"), which was issued earlier by the State Council, on 20 September 2022, the GAC introduced certain measures for promoting comprehensive cooperation among Guangdong, Hong Kong and Macau by further deepening the open-up of Guangzhou Nansha via Shuzonghan [2022] No. 143 ("Circular 143").

Key features of Circular 143 are as follows:

Facilitate mobility

- Support circulation

Pilot the “positive list for cross border scientific research materials” and “whitelist for the import of biomedical research and development materials”.

- Facilitate personnel mobility

Facilitate customs clearance of scientific researchers who enjoy the treatment of national high-level returnee talents, scientists and technology experts. Support the information sharing of customs health declaration, “Yuekang Code” of Guangdong and “Gangkang Code” of Hong Kong and mutual recognition of results.

- Support the integrated development of international distribution centers

Support the integration of logistics of various trade modes and assist the Nansha Comprehensive Bonded Zone (CBZ) in building commodity supply chain management platforms.

Promote the development of major strategic platforms

- Support the development of cross-border e-commerce

Optimize the import and export goods return procedures of cross-border e-commerce and support eligible enterprises in Nansha to establish retail import returns centers of cross-border e-commerce.

- Support “Bonded+” business

Support the development of aircraft bonded leasing, bonded delivery of commodity futures, high-tech and high value-added global maintenance, etc.

- Assist the development of automobile industry chain

Support the development of parallel imported vehicles, new energy vehicles, intelligent vehicles in the Nansha CBZ.

Build a “going global” comprehensive service base

- Support the development of trade in services

Encourage large enterprise groups to establish regional headquarters or functional headquarters in Nansha, and support Nansha to establish comprehensive offshore trade service platforms.

- Regional Comprehensive Economic Partnership (RCEP) Agreement

Support the high-quality implementation of RCEP and relevant customs provisions in Nansha and help enterprises in the area to fully enjoy RCEP benefits.

- Support the construction of a comprehensive service system

Pilot the reform of optimizing export supervision process at Nansha Ports and strengthen the construction of precise service capacity of technical trade measures.

Strengthen the linkage of rules among Guangdong, Hong Kong and Macau

- Optimize the business environment at ports

Promote the normalization of special action measures for facilitating cross-border trade. Coordinate the implementation of tax refund policies of port of departure and further expand the scope of the policies.

- Deepen the reform of “smart customs”

Strengthen international customs cooperation and achieve online handling and simplified procedures of customs administrative licensing matters.

- Intellectual property rights protection

Enhance cooperation among Guangdong, Hong Kong and Macau in the enforcement of intellectual property rights protection. Fully boost the function of the intellectual property dispute mediation centers that are jointly established by the customs and local courts.

Relevant parties are advised to read Circular 143 for details and fully enjoy the benefits of the favorable measures.

You can click this link to access the full content of Circular 143:

<http://gdfs.customs.gov.cn/customs/302249/zfxgk/zfxgkml34/4589480/index.html>

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

http://www.gov.cn/zhengce/content/2022-06/14/content_5695623.htm

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 (42nd Batch)”, “Catalog of New Energy Vehicles Eligible for Vehicle Purchase Tax Exemption (58th Batch)”, etc. (MIIT PN [2022] No. 20)
https://www.miit.gov.cn/jgsj/zbys/wjfb/art/2022/art_6dcb03fb79884863aec45b86def9a7cc.html
- ▶ Measures on Compliance Management of Central Enterprises
http://www.gov.cn/zhengce/zhengceku/2022-09/19/content_5710633.htm
- ▶ Administrative Measures for Standardization in the Commercial Field (MOFCOM Order [2022] No. 2)
http://www.gov.cn/zhengce/zhengceku/2022-09/21/content_5710876.htm
- ▶ Administrative Measures of the Customs of the People’s Republic of China on the Inspection and Admissibility of Import and Export Commodities (GAC Order [2022] No. 259)
<http://shanghai.customs.gov.cn/customs/302249/2480148/4590463/2022092116531218763.pdf>
- ▶ PN regarding adjusting the items of the customs declaration form for import and export goods (GAC PN [2022] No. 88)
<http://gdfs.customs.gov.cn/customs/302249/2480148/4590561/index.html>

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