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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.

*If you wish to access the previous issues of CTIE and China Tax & Investment News, please contact us.

Tax circulars

- ▶ Public notice (PN) regarding Value-added Tax (VAT) reduction and exemption policies for VAT taxpayers (MOF/STA PN [2023] No. 1)
- ▶ PN regarding tax collection and administration matters related to the VAT reduction and exemption policies for VAT taxpayers (STA PN [2023] No. 1)

Synopsis

On 9 January 2023, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released MOF/STA PN [2023] No. 1 ("PN 1") to specify certain VAT policies effective from 1 January 2023 to 31 December 2023. On the same day, the STA issued STA PN [2023] No. 1 ("STA PN 1") to clarify the related tax collection and administration matters.



Key features of “PN 1” and “STA PN 1” are as follows:

Items	Details
VAT treatments for small-scale VAT taxpayers	
VAT exemption for small-scale VAT taxpayers	<ul style="list-style-type: none"> For small-scale VAT taxpayers with monthly/quarterly sales not exceeding RMB100,000/RMB300,000, the sales of goods, labor, services and intangible assets shall be exempt from VAT; the total monthly/quarterly sales shall exclude real estate sales. For small-scale VAT taxpayers that calculate and file VAT on a net basis, the threshold for VAT exemption shall also be applied based on the net basis. <p>For the abovementioned revenue applicable for VAT exemption, the taxpayer may choose not to apply for the exemption and issue special VAT invoice.</p>
Rental income	Rental income derived by an individual from leasing real estate on a lump sum basis can be evenly distributed over the lease term and if the monthly average rental income does not exceed RMB100,000, VAT shall be exempted.
Applicable VAT collection rate/provisional VAT rate for small-scale VAT taxpayers	<p>The statutory VAT collection rate/provisional VAT rate at 3% for sales income/cross-region sales income¹ derived by small-scale VAT taxpayers is reduced to 1%.</p> <p>The VAT taxpayer may either issue normal VAT invoice at the collection rate of 1%, or choose not to apply for the tax reduction and issue special VAT invoice.</p>
Super input VAT credit	
General VAT taxpayers engaging in manufacturing services ²	These taxpayers shall be given an extra 5% “super input VAT credit”, i.e., input VAT can be credited at 105%.
General VAT taxpayers engaging in lifestyle services ³	These taxpayers shall be given an extra 10% “super input VAT credit”, i.e., input VAT can be credited at 110%.

Taxpayers are advised to observe PN 1 and STA PN 1 for more information. We have issued a WeChat news article (in Chinese) on 18 January 2023 to discuss PN 1 and STA PN 1 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 or click the weblink below.

¹ According to the prevailing VAT rules, “cross-region sales income” generally refers to income derived by a VAT taxpayer from administrative counties/districts/cities other than the taxpayer’s registered location. For instance, where a taxpayer provides construction services in other county and derives income therein, the taxpayer is required to prepaid VAT in the area it performs the services.

² “General VAT taxpayers engaging in manufacturing services” refers to taxpayers whose aggregate sales derived from postal services, telecommunication services and modern services (such as research and development, information technology services, logistics services and certification and consulting services) and lifestyle services exceed 50% of their total sales.

³ “General VAT taxpayers engaging in lifestyle services” refers to taxpayers whose aggregate sales derived from lifestyle services (i.e., culture and sports services, educational and medical services, tourism and entertainment services, catering and accommodation services, daily services for residents, and other lifestyle services) exceed 50% of their total sales.

You can click this link to access the full contents of PN 1:

<http://www.chinatax.gov.cn/chinatax/n359/c5183530/content.html>

You can click this link to access the full contents of STA PN 1:

http://www.gov.cn/zhengce/zhengceku/2023-01/10/content_5736056.htm

You can click this link to access the full contents of the WeChat article:

<https://mp.weixin.qq.com/s/sq1ANUNEjJsJ0o-5veuFVw>

- ▶ PN regarding matters related to annual Corporate Income Tax (CIT) filing (STA PN [2022] No. 27)

Synopsis

To cope with certain new CIT policies, the STA released STA PN [2022] No. 27 ("PN 27") on 30 December 2022 to specify certain matters related to the 2022 annual CIT filing which will be completed by 31 May 2023.

According to PN 27, five schedules of the annual CIT return and the related instructions are revised, such as the statement of adjustments on depreciation and amortization of assets (Schedule A1050800) (i.e., 《资产折旧、摊销及纳税调整明细表》), statement of adjustments on items related to enterprise restructuring and tax deferral (Schedule A105100) (i.e., 《企业重组及递延纳税事项纳税调整明细表》), and statement of adjustments on tax exemption, reduction and super deduction (Schedule A107010) (i.e., 《免税、减计收入及加计扣除优惠明细表》). The instruction of the statement of tax adjustment items (Schedule A105000) (i.e., 《纳税调整项目明细表》) is also revised accordingly. The relevant revisions made in the schedules and instructions are to reflect the new tax rules implemented in 2022, such as MOF/STA/MOST PN [2022] No. 16 ("PN 16", i.e., PN regarding further raising the super deduction ratio of research and development expenses of Technology-based Small and Medium-sized Enterprises).

On the other hand, to streamline administration and optimize tax services, it is prescribed in PN 27 that enterprises relocated in the current year due to governmental demolition and relocation are not required to complete and submit the profit and loss statement of policy-based relocation (i.e., 《企业政策性搬迁清算损益表》) during the annual CIT filing.

PN 27 shall be applicable to the annual CIT declaration of year 2022 and after, until it is superseded by any further updated policies to be released in the future. Where the relevant rules of previous annual CIT declaration are inconsistent with PN 27, no retrospective adjustment needs to be made. Where a taxpayer adjusts tax-related matters of previous years, the adjustments shall be made in accordance with the relevant rules of CIT declaration for the corresponding year.

Taxpayers are advised to read PN 27 for more details and follow the new changes. For any questions, please feel free to reach out to our tax professionals.

You can click this link to access the full contents of PN 27:

http://www.gov.cn/zhengce/zhengceku/2023-01/13/content_5736752.htm

You can click this link to access the full contents of STA's official interpretation on PN 27:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5183638/content.html>

You can click this link to access the full contents of PN 16:

http://www.gov.cn/zhengce/zhengceku/2022-04/03/content_5683341.htm

- ▶ Notice regarding optimizing certain tax service items (Shuizongzhengkefa [2022] No. 87)

Synopsis

To further deepen the reform of "Delegate Power, Streamline Administration and Optimize Government Services", on 29 December 2022, the STA released Shuizongzhengkefa [2022] No. 87 ("Circular 87") to further deepen the reform of tax collection and administration and optimize certain tax service items.

Key features of Circular 87 are as follows:

Simplifying process for alteration of tax registration

According to Circular 87, from 1 April 2023, taxpayers are not required to apply for alteration of tax registration after they applied for alteration with the market supervision and regulation authorities. Such changes of information shall be automatically synchronized in the Core Collection and Management System of Golden Tax Phase III.

Optimizing tax service process of cross-province relocation

- Optimizing process for taxpayers relocated to other provinces or newly moved in from other provinces, e.g., the supervising tax authority of the incoming area should notify the taxpayer regarding its tax filing deadline and other tax related matters within one working day.
- Prepaid taxes before the relocation can be used to offset against tax payable after the relocation while any CIT and Individual Income Tax losses (e.g., operating loss of self-employed industrial and commercial households) of the taxpayers can continue to be utilized after the relocation.

Circular 87 shall become effective from 1 April 2023. Relevant taxpayers are encouraged to read Circular 87 for more details and fully enjoy the above-mentioned tax facilitation services.

You can click this link to access the full contents of Circular 87:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5183506/content.html>

Business circulars

- ▶ Administrative Measures on the Review and Registration of Enterprises' Medium and Long-term Foreign Debts (NDRC Order [2023] No. 56)

Synopsis

To improve efficiency in the use of funds from medium and long-term foreign debts and effectively prevent foreign debt risks, the National Development and Reform Commission (NDRC) released the "Administrative Measures on the Review and Registration of Enterprises' Medium and Long-term Foreign Debts" (hereinafter referred to as the "Administrative Measures") via NDRC Order [2023] No. 56 on 5 January 2023.

Key features of the Administrative Measures are as follows:

Definition and uses of foreign debts

"Medium and long-term foreign debts" (hereinafter referred to as the "foreign debts") refers to debt instruments with a term of more than one year (excluding), denominated in RMB or a foreign currency, issued overseas by enterprises within the territory of the People's Republic of China (PRC) and overseas enterprises or branches controlled by them, with the repayment of the principal and interest as agreed.

An enterprise may, on its own discretion, decide on the use of funds raised from foreign debts at home and abroad, and the purpose of which should meet the following conditions:

- The purpose of foreign debts shall not violate any laws or regulations of the PRC.
- The purpose of foreign debts shall not threaten or impair the national interests, economic security or security of information data.
- The purpose of foreign debts shall not go against macro-economic control objectives.
- The purpose of foreign debts shall not violate development plans and industrial policies of the PRC, nor shall it increase the implicit debts of local governments.

- The purpose of foreign debts shall not be speculation or hype; except for banking or financial enterprises, enterprises are not allowed to lend the funds raised from foreign debts to others, unless relevant information has been stated in the application materials for review and registration of foreign debts and the approval has been obtained.

Qualification and application

To borrow foreign debts, an enterprise shall meet the following conditions:

- It is established in accordance with the law, exists legally, operates in compliance with regulations, and has a sound and well-operated organizational structure.
- It has a reasonable demand for funds raised from foreign debts, the purposes of which meet the above provisions; it also has good credit status, solvency and a sound risk prevention and control mechanism for foreign debts.
- The enterprise and its controlling shareholders and actual controllers have not committed criminal offences such as corruption, bribery, embezzlement of property, misappropriation of property, or disruption of the order of socialist market economy in the past three years, or have not been investigated in accordance with the law due to suspected crimes or major violations.

The headquarter of a domestic holding enterprise should submit the application attached with the relevant documents (see the Administrative Measures for details) to the NDRC (hereinafter referred to as the "review and registration authority"). The review and registration authority shall, within three months from the date of acceptance, issue a Certificate of Review and Registration for an application which complies with the provisions. With the Certificate of Review and Registration, the enterprise can go through the relevant procedures of foreign exchange registration, account opening, fund receipt and payment, use of funds according to the provisions.

Risk management and interim and post-event supervision

Enterprises shall strengthen management of foreign debt risks, reasonably control the scale and optimize the structure of foreign debts. Further, enterprises shall report the use of funds from foreign debts to the review and registration authority through the network system on time. The review and registration authority shall conduct interim and post-event supervision and administration by such means as online monitoring, interview, inquiry and random check.

Legal responsibility

In regards to any enterprise borrowing foreign debts that caused violation of the Administrative Measures, the review and registration authority shall impose disciplinary measures on the relevant enterprise and its principal responsible persons, including revoking the Certificate of Review and Registration. In case of any violation of law or crime, relevant legal responsibility shall be pursued according to law.

The Administrative Measures shall become effective on 10 February 2023. Enterprises are advised to read the Administrative Measures for details and observe the regulations. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full contents of the Administrative Measures:

https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/202301/t20230110_1346285.html?code=&state=123

- Notice regarding further expanding the use of RMB in cross-border trade and investment and promoting trade and investment facilitation (Shangcaihan [2023] No. 1)

Synopsis

To further facilitate the use of RMB in cross-border trade and investment and to meet the demands of foreign trade enterprises in transaction settlement, investment and financing and risk management, the Ministry of Commerce (MOFCOM) and People's Bank of China (PBOC) jointly issued Shangcaihan [2023] No. 1 ("Circular 1") regarding further expanding the use of RMB in cross-border trade and investment and promoting trade and investment facilitation on 6 January 2023.

Key features of Circular 1 are as follows:

Promote higher-level trade and investment facilitation

- Facilitate cross-border RMB settlement in trade of goods, services and various new business models of trade.
- Support RMB pricing and settlement in commodities trade.
- Support foreign investors to use RMB to invest and reinvest in the PRC.
- Support the settlement of trade and investment in RMB with neighboring countries (regions) and the Regional Comprehensive Economic Partnership (RCEP) regions.

Cross-border investment and financing

- Encourage banks to carry out overseas RMB loan business and reduce RMB financing costs in accordance with commercial principles.
- Encourage the preferential use of RMB loans for qualified overseas projects and enterprises with actual needs.
- Meet the demand of enterprises for RMB trade financing through letters of credit, forfaiting, bill negotiation, bill discount factoring, payment, etc.

Implement specific policies for enterprises

- Encourage banks to incorporate more high-quality enterprises into the scope of facilitation policies.
- Facilitate medium, small and micro-sized enterprises to use RMB for settling cross-border trade and investment, prevent exchange risks and reduce exchange costs.
- Support core enterprises of supply chains and encourage domestic and overseas enterprises, upstream and downstream enterprises to use RMB.
- Promote state-owned enterprises to take the lead to actively use RMB in transactions between domestic and overseas enterprises within the group.

Utilize opening-up platforms

- Support the innovation of cross-border RMB business in certain areas such as Lin-gang Special Area of the China (Shanghai) Pilot Free Trade Zone, Guangdong-Hong Kong-Macau Greater Bay Area and Hainan Free Trade Port.
- Encourage banks to provide integrated comprehensive financial services for cross-border RMB settlement in national economic and technological development zones, border (cross-border) economic cooperation zones and international exhibitions.
- Expand the use of RMB in overseas economic and trade cooperation zones and support banks to establish branches there.

Improve comprehensive financial services

- Encourage banks to actively innovate products and services and provide comprehensive financial services.
- Encourage banks to simplify the cross-border RMB settlement process and improve the convenience and efficiency of capital receipt.
- Strengthen insurance services and support enterprises to use RMB for premium payment and policy renewal.

Interested parties are advised to read Circular 1 for details.

You can click this link to access the full contents of Circular 1:

<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4763611/index.html>

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

- ▶ PN regarding the list of charitable social organizations through which charitable donations made are deductible for income tax purposes for years 2022-2024 and 2023-2025 (MOF/STA/MCA PN [2022] No. 40)
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5183528/content.html>
- ▶ Overall Plan of Guangzhou on the Comprehensive Pilot Program for Expanding the Opening-up of the Service Industry (Shangzifa [2022] No. 212)
<http://www.mofcom.gov.cn/article/zcfb/zcxzc/202301/20230103378399.shtml>
- ▶ Overall Plan of Wuhan on the Comprehensive Pilot Program for Expanding the Opening-up of the Service Industry (Shangzifa [2022] No. 211)
<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202301/20230103378396.shtml>
- ▶ Overall Plan of Nanjing on the Comprehensive Pilot Program for Expanding the Opening-up of the Service Industry (Shangzifa [2022] No. 209)
<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202301/20230103378387.shtml>
- ▶ Overall Plan of Shenyang on the Comprehensive Pilot Program for Expanding the Opening-up of the Service Industry (Shangzifa [2022] No. 208)
<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202301/20230103378374.shtml>
- ▶ Overall Plan of Chengdu on the Comprehensive Pilot Program for Expanding the Opening-up of the Service Industry (Shangzifa [2022] No. 213)
<http://www.mofcom.gov.cn/article/zcfb/zcxzc/202301/20230103378407.shtml>
- ▶ Overall Plan of Hangzhou on the Comprehensive Pilot Program for Expanding the Opening-up of the Service Industry (Shangzifa [2022] 210)
<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202301/20230103378390.shtml>
- ▶ PN regarding public opinions consultation on several measures and regulations related to fixed asset loans, personal loans, etc.
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1089145&itemId=951>
- ▶ PN regarding provisional measures for the review of the revised Patent Law (CNIPA PN [2023] No. 510)
https://www.cnipa.gov.cn/art/2023/1/5/art_74_181248.html
- ▶ PN regarding provisional measures after China's accession to the Hague Agreement (CNIPA PN [2023] No. 511)
https://www.cnipa.gov.cn/art/2023/1/5/art_74_181249.html
- ▶ Notice regarding the pilot run on recognition standards of high-end and urgently-needed foreign talents in Beijing (Guokebancai [2022] No. 177)
https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2022/202301/t20230106_184169.html
- ▶ Notice regarding the pilot run on recognition standards of high-end and urgently-needed foreign talents in Chongqing (Guokebancai [2022] No. 179)
https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2022/202301/t20230106_184171.html
- ▶ Notice regarding the pilot run on recognition standards of high-end and urgently-needed foreign talents in Guangzhou (Guokebancai [2022] No. 181)
https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2022/202301/t20230106_184173.html

- ▶ Notice regarding the pilot run on recognition standards of high-end and urgently-needed foreign talents in Shanghai (Guokebancai [2022] No. 178)
https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2022/202301/t20230106_184170.html
- ▶ Notice regarding the pilot run on recognition standards of high-end and urgently-needed foreign talents in Shenzhen (Guokebancai [2022] No. 182)
https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2022/202301/t20230106_184174.html
- ▶ Notice regarding the pilot run on recognition standards of high-end and urgently-needed foreign talents in Hangzhou (Guokebancai [2022] No. 180)
https://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fgzc/gfxwj/gfxwj2022/202301/t20230106_184172.html
- ▶ Rules for the transfer of mining rights (Ziranzigui [2023] No. 1)
http://f.mnr.gov.cn/202301/t20230109_2772390.html
- ▶ PN regarding public opinions consultation on the revisions to the “China’s Catalog of Technologies Prohibited or Restricted from Export”
<http://fms.mofcom.gov.cn/article/tongjiziliao/202212/20221203376696.shtml>
- ▶ Standards of the National Energy Administration on Discretion for Administrative Penalties (Guonengfajianguangui [2022] No. 115)
http://zfxgk.nea.gov.cn/2022-12/28/c_1310689736.htm
- ▶ Notice regarding the list of pilot areas for the integration of domestic and foreign trade (Shangbanjianhan [2022] No. 318)
<http://www.mofcom.gov.cn/article/gztz/202301/20230103378565.shtml>
- ▶ Notice regarding matters related to revised standards for financial reporting of financial enterprises (Caijin [2022] No. 145)
http://jrs.mof.gov.cn/gongzuotongzhi/202301/t20230110_3862592.htm



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ED None.

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