

A large blue and red ship, likely a container ship, is sailing on the ocean. The ship is viewed from a high angle, showing its deck and superstructure. The water is a deep blue, and the sky is a lighter blue with some clouds. The ship is moving towards the left of the frame, leaving a white wake behind it.

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

- ▶ **Notice regarding public opinions consultation on the “Notice regarding formulating the list of integrated circuit (IC) enterprises eligible for the super input Value-added Tax (VAT) credit policy in 2023”**

Synopsis

According to Caishui [2023] No. 17 (“Circular 17”, i.e., Notice regarding the “super input VAT credit” policy for IC enterprise), general VAT taxpayers engaging in IC design, manufacturing, equipment, materials, packaging, and testing (collectively referred to as “IC enterprises”) would be eligible for an extra 15% “super input VAT credit” from 1 January 2023 to 31 December 2027. On 29 May 2023, the Ministry of Industry and Information Technology (MIIT) announced a Discussion Draft regarding the scope, criteria, application materials, application timeline and administration of qualified IC enterprises (hereinafter referred to as the “Discussion Draft”) to seek public opinion.

As proposed in the Discussion Draft, the scope, criteria, and business activities of qualified IC enterprises are set out below:

Types of IC enterprises	IC design enterprises	IC manufacturing enterprises	IC packaging and testing enterprises	IC equipment enterprises	IC material enterprises
Basic criteria	<p>All the following criteria should be met:</p> <ul style="list-style-type: none"> ▶ The enterprise is a legal entity and is legally incorporated in the Mainland of China (hereinafter referred to as "Mainland"). ▶ The enterprise is a general VAT taxpayer. ▶ The enterprise owns core technology/intellectual property (IP) and carries out its business operations on this basis. ▶ There are no major security accidents, quality issues or severe violation of environmental laws in the previous year. 				
Scope of business activities	<ul style="list-style-type: none"> ▶ IC design ▶ Development of Electronic Design Automation (EDA) tools ▶ Design of IP core 	<ul style="list-style-type: none"> ▶ Logic circuits with line width of 130nm or less ▶ Manufacturing of storage device ▶ Manufacturing of featured process IC with line width of 0.25μm or less ▶ Manufacturing of compound IC with line width of 0.5μm or less 	IC packaging and testing	Research and development (R&D) and manufacturing of special equipment and key parts for IC	R&D and manufacturing of special materials for IC
Minimum ratio of revenue derived from the aforesaid business activities to the total revenue for the previous year	<ul style="list-style-type: none"> ▶ 60% (revenue from self-designed sales /operations should account for no less than 50%); and ▶ With total revenue of RMB30 million or more 	60%	<ul style="list-style-type: none"> ▶ 60%; and ▶ With total revenue of RMB20 million or more 	<ul style="list-style-type: none"> ▶ 30%; and ▶ With revenue derived from IC equipment totaling RMB15 million or more; or ▶ With revenue derived from IC key component totaling RMB10 million or more 	<ul style="list-style-type: none"> ▶ 30%; and ▶ With total revenue of RMB10 million or more
Minimum ratio of R&D personnel to the total headcount of the previous year	40%	20% (or 15% for those engaging in manufacturing of IC with a diameter of eight inches or below)	15%	<ul style="list-style-type: none"> ▶ IC equipment enterprise: 20% ▶ IC key component enterprise: 15% 	15%

Types of IC enterprises (Cont'd)	IC design enterprises (Cont'd)	IC manufacturing enterprises (Cont'd)	IC packaging and testing enterprises (Cont'd)	IC equipment enterprises (Cont'd)	IC material enterprises (Cont'd)
Minimum ratio of R&D expenses to turnover for the previous year	6%	2%	3%	5%	5%
Need to meet the state planning or industrial policy requirements	No	Yes	Yes	No	No

According to the Discussion Draft, eligible taxpayers would be required to lodge their applications to be listed as “qualified IC enterprises” online from 10 July 2023 to 30 July 2023. The print-out receipt of the application should be affixed with the company chop and submitted to the local competent department under the MIIT together with the supporting documents as prescribed in the Discussion Draft.

After that, applicants would be able to check via the online system whether they are included in the list of qualified IC enterprises after 25 August 2023. Once the list is officially announced, the qualified IC enterprises would be able to claim the eligible super input VAT credit from January 2023 up to the current period altogether.

Concerned parties are advised to read the Discussion Draft and are encouraged to express opinions on or before 27 June 2023 by sending emails or faxes.

You can click this link to access the full contents of the Discussion Draft:

https://wap.miit.gov.cn/gzcy/yjzj/art/2023/art_399fb9d09fb7402b9ac173295833b4aa.html

You can click this link to access the full contents of Circular 17:

https://czt.jiangsu.gov.cn/art/2023/4/28/art_77309_10879328.html

- **Public notice (PN) regarding matters related to substantive operations of enterprises in encouraged industries in the Guangzhou Nansha Pilot Zone (Nansha Tax Services, State Taxation Administration/Nansha Finance Bureau/Nansha Market Regulatory Bureau/Nansha Urban Management and Law Enforcement Bureau PN [2023] No. 1)**

Synopsis

According to Caishui [2022] No. 40 (“Circular 40”, i.e., Notice regarding preferential Corporate Income Tax (CIT) policies for Nansha district in Guangzhou) which is effective from 1 January 2022 to 31 December 2026, enterprises registered in start-up areas¹ (hereinafter referred to as the “pilot areas”) of Nansha and engaged in substantive business in encouraged industries shall be subject to a reduced CIT rate of 15% provided that both of the following conditions are met:

- The enterprise is engaged in encouraged industries as prescribed in the 2022 Catalog of CIT Preferential Treatments for Enterprises of Nansha (hereinafter referred to as the “Nansha Catalog”) and its revenue derived from the encouraged industries accounts for 60% or above of its total revenue; and
- The effective management of the enterprise is physically in the pilot areas of Nansha and exercises substantive and overall management and control on business, personnel, accounting, and properties, etc.

Further to Circular 40, Nansha Tax Services, the State Taxation Administration (STA), Nansha Finance Bureau, Nansha Market Regulatory Bureau and Nansha Urban Management and Law Enforcement jointly released a PN (hereinafter referred to as “PN 1”) on 31 May 2023 setting out the detailed clarifications on the key criteria for substantive manufacturing/business operation. Key points as follows:

Key factor I - carrying out manufacturing/business operations in the pilot areas of Nansha

- ▶ A qualifying enterprise should have its fixed and main manufacturing/business operation premises with necessary manufacturing/business equipment and facilities physically in the pilot areas of Nansha; or should have its effective management in the pilot areas of Nansha that manages and controls a full-scale manufacturing/business operations; and
- ▶ The enterprise exercises an authority to conclude contracts in its own name.

Key factor II - with sufficient staffs in the pilot areas of Nansha

- ▶ With sufficient staffs working in the pilot areas of Nansha.
- ▶ Salaries and wages of the staffs should be paid via bank accounts set up in the pilot areas of Nansha.
- ▶ Considering its actual business scale, the enterprise should have three to 30 staffs working in the pilot areas of Nansha and contribute to social securities in the pilot areas of Nansha for at least six months in a year.

Key factor III - with accounting records maintained in the pilot areas of Nansha

A qualifying enterprise should maintain the accounting ledgers, accounting books and financial statements, etc. in the pilot areas of Nansha and the basic deposit account and settlement accounts for major business activities should be opened with commercial banks in the pilot areas of Nansha.

Key factor IV - with assets situated in the pilot areas of Nansha

A qualifying enterprise should have necessary assets (where the enterprise has title or the use right) physically in use in the pilot areas of Nansha, or its effective management that manages and controls the assets in a full-scale in the pilot areas of Nansha that match with its manufacturing/business scale.

Exception

Notwithstanding the four key factors stated above, it is stated in the official interpretation that any enterprise falling into either one of the following situations shall be considered disqualified:

- ▶ An enterprise without manufacturing/operational functions only undertakes financial settlements, tax filings, invoicing functions for businesses outside the pilot areas of Nansha; or
- ▶ An enterprise's registered address was found inconsistent with its actual business operation address and contact person of the enterprise cannot be reached or failed to provide its actual business address after accessed by the government authorities.

Similar to the practice of Hainan Free Trade Port, the Guangdong-Macau In-depth Cooperation Zone in Hengqin (Hengqin), the Pingtan Comprehensive Experimental Zone and the impoverished areas of Xinjiang, a taxpayer should perform self-assessment to determine whether the above CIT preference is applicable and apply for the preferential CIT treatment in the annual CIT filing by filling out the CIT return and a separate Commitment Form of Self-Assessment on Operation Substance (i.e., Attachment of PN 1).

Taxpayers are advised to study PN 1 and Circular 40 in detail. If in doubt, consultations with professionals are always recommended.

¹ According to Guofa [2022] No. 13 (“Circular 13”, i.e., Notice regarding an overall plan for promoting comprehensive cooperation among Guangdong, Hong Kong and Macau by further deepening the open-up of Nansha district in Guangzhou), the start-up areas refer to Nansha Bay, Qingsheng Hub Cluster, and Nansha Hub Cluster.

You can click this link to access the full contents of PN 1:
http://www.gzns.gov.cn/tzns/tzzc/bdzc/content/post_9011256.html

You can click this link to access the full contents of Circular 40:
https://guangdong.chinatax.gov.cn/gdsw/ssfggds/2022-11/01/content_7318f15fbd284ec498362b2cf9774d3f.shtml

► Guidelines on Extended and Optimized Preferential Tax/Fee Policies for 2023

Synopsis

On 26 May 2023, the STA released the guidelines covering 12 extended and optimized preferential tax/fee policies for 2023 (hereinafter referred to as the "Guidelines") to facilitate market entities to timely understand those preferential policies.

For your easy reference, we summarized some extended preferential tax policies in the table below (please click the links of the circular numbers to access the detailed rules):

1. VAT exemption/reduction for <u>small-scale VAT taxpayers</u> (1 January 2023 to 31 December 2023)	
Relevant policies	Details
STA PN [2023] No. 1 ("STA PN 1"), i.e., PN regarding tax collection and administration matters related to the VAT reduction and exemption policies for VAT taxpayers; etc.	<ul style="list-style-type: none"> Small-scale VAT taxpayers with monthly sales not exceeding RMB100,000 shall be exempt from VAT. The statutory VAT collection rate/provisional VAT rate at 3% for sales income/cross-region sales income derived by small-scale VAT taxpayers is reduced to 1%.
2. Super input VAT credit policies for <u>general VAT taxpayers engaging in manufacturing and lifestyle services</u> (1 January 2023 to 31 December 2023)	
Relevant policies	Details
STA PN 1 , etc.	<ul style="list-style-type: none"> General VAT taxpayers engaging in manufacturing services² 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 services³ shall be given an extra 10% "super input VAT credit", i.e., input VAT can be credited at 110%.
3. Preferential Individual Income Tax (IIT) policies for <u>resident individuals</u> (1 January 2023 to 31 December 2023)	
Relevant policy	Details
MOF/STA PN [2023] No. 2 ("PN 2"), i.e., PN regarding extending the implementation period of certain preferential IIT policies	For a resident individual receives qualifying equity income (e.g., stock options, stock appreciation rights, restricted stocks, stock awards) that meets the criteria as prescribed in existing circulars, such as Caishui [2005] No. 35 , the IIT payable shall be calculated separately instead of being combined into the consolidated income.
4. Preferential IIT policies for <u>individual investors from the Mainland</u> (1 January 2023 to 31 December 2023)	
Relevant policy	Details
PN 2	Individual investors from the Mainland are temporarily exempt from IIT in the Mainland with respect to gains derived from trading of stocks on the Hong Kong Stock Exchange through the Shanghai/Shenzhen-Hong Kong Stock Connect Program and trading of Hong Kong securities investment funds via the Mainland-Hong Kong mutual recognition of funds.

5. Preferential income tax policies for <u>small and micro-sized enterprises (SMEs)</u>	
Relevant policies	Details
<p>MOF/STA PN [2023] No. 6, i.e., PN regarding preferential income tax policies for SMEs and self-employed industrial/commercial households;</p> <p>MOF/STA PN [2022] No. 13, i.e., PN regarding further implementation of CIT preferential policies for qualifying SMEs; etc.</p>	<ul style="list-style-type: none"> ▶ From 1 January 2023 to 31 December 2024, 75% reduction on the part of taxable income not exceeding RMB1 million for CIT calculation purposes with the applicable CIT rate of 20%. ▶ From 1 January 2022 to 31 December 2024, 75% reduction on the part of taxable income between RMB1 million and RMB3 million for CIT calculation purposes with the applicable CIT rate of 20%.
6. The R&D super deduction applies to enterprises (except for those engaging in wholesale and retail, tobacco manufacturing, hospitality and catering, real estate development, leasing and other business services, entertainment, etc. (from 1 January 2023))	
Relevant policies	Details
<p>MOF/STA PN [2023] No. 7, i.e., PN regarding further optimizing the policy on super deduction of R&D expenses; etc.</p>	<ul style="list-style-type: none"> ▶ Enterprises are allowed to claim a 200% super deduction on eligible R&D expenses actually incurred for CIT purposes. ▶ Enterprises can also amortize the intangible assets based on 200% of the actual costs incurred, if the R&D expenses incurred have been capitalized.
7. Urban Land Use Tax (ULUT) incentives for <u>bulk commodity storage facilities owned or used by logistics enterprises</u> (1 January 2023 to 31 December 2027)	
Relevant policy	Details
<p>MOF/STA PN [2023] No. 5, i.e., PN regarding extending the implementation period of ULUT incentive for bulk commodity storage facilities owned or used by logistics enterprises</p>	<p>Logistics enterprises are allowed to calculate ULUT for their land used (rent out, leased or self-used) for qualifying bulk commodity storage facilities with a 50% reduction on the applicable ULUT rates.</p>

Taxpayers are advised to read the Guidelines for more details and try to leverage these tax incentives. If in doubt, consultations with professionals are always recommended.

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 R&D, 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 Guidelines:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5204667/content.html>

- ▶ **PN regarding extending the 11th set of exclusions to the goods originating from the United States that are imposed with additional tariffs (Customs Tariff Commission PN [2023] No. 6)**

Synopsis

According to the Customs Tariff Commission PN [2022] No. 10 (“PN 10”, i.e., PN regarding extending the ninth set of exclusions to the goods originating from the United States that are imposed with additional tariffs), goods in the list of PN 10, i.e., the ninth set of exclusions to the goods originating from the United States, shall not be imposed with additional tariffs until 31 May 2023. In this respect, on 25 May 2023, the Customs Tariff Commission released Customs Tariff Commission PN [2023] No. 6 (“PN 6”) to extend the exclusion.

Accordingly, 95 types of goods listed in the attachment of PN 6 shall continue to be excluded from imposing the additional tariffs against the US Section 301 measures from 1 June 2023 to 31 December 2023.

You can click this link to access the full contents of PN 6:

http://gss.mof.gov.cn/gzdt/zhengcefabu/202305/t20230530_3887764.htm

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

http://gss.mof.gov.cn/gzdt/zhengcefabu/202211/t20221128_3853670.htm

Business circular

► 2023 Legislative Work Plan of the Standing Committee of the National People's Congress (NPC)

Synopsis

On 29 May 2023, the Standing Committee of the NPC released the annual legislative work plan for 2023 (hereinafter referred to as the "2023 Legislative Plan"). As usual, the 2023 Legislative Plan divides the legislative projects into three categories, i.e., the legislative projects for continuous deliberation, legislative projects for initial deliberation, as well as preparatory legislative projects.

Among which, the legislative projects for continuous deliberation in the 2023 Legislative Plan include the following business and tax related projects:

- VAT Law
- Company Law (revision)
- Legislation Law (revision)
- Administrative Reconsideration Law (revision)
- Financial Stability Law
- Charity Law (revision)

It is worth-noting that the Real Estate Tax Law is still not mentioned in the 2023 Legislative Plan. Besides, the Consumption Tax Law (Discussion Draft) and Land Appreciation Tax Law (Discussion Draft) that were previously announced to seek public opinions and deliberated to the State Council were not mentioned in the 2023 Legislative Plan yet. We will keep an eye on any further developments and update you accordingly, please stay tuned.

You can click this link to access the full contents of the 2023 Legislative Plan:

<http://www.npc.gov.cn/npc/c30834/202305/3369dcb74761426d92fd19a19cb9ac98.shtml>

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

- Notice issued by Hengqin Tax Service, STA regarding a batch of tax-related measures for supporting the high-quality development of Hengqin

http://guangdong.chinatax.gov.cn/gdsw/zhhqsw_tzgg/2023-06/02/content_2f5b629558464de7b5d15e00f3148b34.shtml

- Notice regarding the fourth batch of measures for simplifying tax procedures for taxpayers (Shuizongnafuhan [2023] No. 72)

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5200836/content.html>

- ▶ **PN regarding a catalog of wholly or partially abolished tax-related regulatory documents (STA PN [2023] No. 8)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5204691/content.html>
- ▶ **2023 Special Action Plan on Tax Measures for Supporting the Development of Small and Micro-sized Business Entities (Shuizongbannafufa [2023] No. 23)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5204777/content.html>
- ▶ **Measures for the Administration and Supervision on Contracts (SAMR Order [2023] No. 77)**
https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fqs/art/2023/art_f747a472a1e942b3a86803f7147bd203.html
- ▶ **Notice regarding implementing the reward and subsidy policies for supporting the development of the camellia oleifera industry (Caibanzihuan [2023] No. 22)**
http://zyhj.mof.gov.cn/zcfb/202305/t20230525_3886761.htm
- ▶ **Notice regarding the list of 2022 National Technology Business Incubators (Guokefahuo [2023] No. 84)**
<http://www.chinatorch.gov.cn/kjb/tzgg/202305/c854dff730814f6ca92f01e62c530648.shtml>
- ▶ **Guidelines on the Record-filing of Standard Contract for the Outbound Transfer of Personal Information (First Edition)**
http://www.cac.gov.cn/2023-05/30/c_1687090906222927.htm



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