

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 circular

- ▶ **Public notice (PN) regarding matters related to the substantive production and research and development activities of key industrial enterprises in the Lin-gang Special New Area of China (Shanghai) Pilot Free Trade Zone (Lin-gang) for preferential Corporate Income Tax treatments purposes (Shanghai Tax Service - State Taxation Administration, Shanghai Municipal Finance Bureau, Shanghai Municipal Commission of Economy and Informatization, Administration Committee of the Lin-gang Special Area of the China (Shanghai) Pilot Free Trade Zone PN [2023] No. 1)**

Synopsis

According to Caishui [2020] No. 38 ("Circular 38", i.e., Notice regarding the Corporate Income Tax (CIT) policies for key industries in Lin-gang), effective from 1 January 2020, eligible legal entities that are engaged in core products and technology of key industries, such as integrated circuits, artificial intelligence, biomedicine, and civil aviation in Lin-gang and carry out substantive production or research and development (R&D) activities, are subject to a reduced CIT rate of 15% within five years from the date of establishment.

In this regard, on 13 June 2023, the Shanghai Tax Service - State Taxation Administration (STA), Shanghai Municipal Finance Bureau, Shanghai Municipal Commission of Economy and Informatization, Administration Committee of Lin-gang jointly released a PN ("PN 1") to clarify that enterprises in Lin-gang should meet the relevant criteria for substantive manufacturing/business operation.

According to PN 1, an eligible enterprise should engage in substantive production or R&D activities in Lin-gang, which meet the following criteria:

| Key factors | Details |
|--|--|
| Fixed and main manufacturing/business operation premises in Lin-gang | <p>All the following criteria should be met:</p> <ul style="list-style-type: none"> ▶ An eligible enterprise should have its fixed and main manufacturing/business operation premises with necessary manufacturing/R&D equipment and facilities in Lin-gang, and conducts manufacturing/R&D activities mainly in Lin-gang. ▶ The enterprise exercises an authority to conclude contracts in its own name. ▶ The enterprise should maintain accounting ledgers, books and financial statements, etc. in Lin-gang and the basic deposit account and settlement accounts for major business activities should be opened with commercial banks in Lin-gang. |
| Sufficient staffs in Lin-gang | <ul style="list-style-type: none"> ▶ With sufficient staffs physically working in Lin-gang. ▶ Salaries and wages of the staffs should be paid via bank accounts set up in Lin-gang. ▶ 50% of its staffs should make contributions to social securities in Lin-gang. |
| Sufficient assets in Lin-gang | An eligible enterprise should have necessary software and hardware assets (where the enterprise has title or the use right) physically in use in Lin-gang that match with its manufacturing/R&D scale. |

Exception

It is stated in PN 1 that any enterprise falling into one of the following situations shall be considered disqualified:

- ▶ The enterprise is registered in Lin-gang but fails to meet one of the abovementioned key factors.
- ▶ The enterprise undergoes a significant business transformation and no longer assumes substantive production or R&D functions. Instead, the enterprise only takes on auxiliary functions such as financial settlement, tax filing, and invoice issuance.
- ▶ The enterprise relocates its manufacturing/business operation premises away from Lin-gang.

Eligibilities to the Preferential CIT treatment in Lin-gang

According to Hucaifa [2020] No. 12 ("Circular 12", i.e., the Administrative Measures for the Recognition and Management of the Eligibilities to the Preferential CIT treatment in Lin-gang), relevant taxpayers in Lin-gang are required to apply to the Administration Committee of Lin-gang for their eligibilities to the reduced CIT rate. In addition to the required documents as prescribed in Circular 12, these taxpayers are also required to complete and submit a separate Commitment Form of Self-Assessment on Operation Substance (i.e., Attachment of PN 1).

PN 1 became effective on 1 January 2023. Taxpayers are encouraged to read PN 1 as well as Circulars 38 and 12 for more details. If in doubt, consultations with professionals are always recommended.

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

<https://shanghai.chinatax.gov.cn/zcfw/zcfqk/qysds/202306/t467397.html>

You can click this link to access the full contents of the authorities' official interpretation on PN 1:
<https://shanghai.chinatax.gov.cn/zcfw/zcjd/202306/t467396.html>

You can click this link to access the full contents of Circular 38:
<http://www.chinatax.gov.cn/chinatax/n362/c5159747/content.html>

You can click this link to access the full contents of Circular 12:
<http://shanghai.chinatax.gov.cn/zcfw/zcfgk/qysds/202011/t455875.html>

Business circulars

► **Notice regarding a list of measures on lowering costs for businesses in 2023 (Fagaiyunxing [2023] No. 645)**

Synopsis

To promote the recovery and growth of the real economy by reducing costs for businesses, the National Development and Reform Commission, Ministry of Finance, Ministry of Industry and Information Technology and People's Bank of China jointly issued a notice regarding a list of measures on lowering costs for businesses in 2023 via Fagaiyunxing [2023] No. 645 ("Circular 645") on 31 May 2023.

According to Circular 645, 22 tasks in eight areas are targeted for lowering the costs for businesses, which include enhancing the accuracy and specificity of preferential tax and fee policies, such as Value-added Tax (VAT) exemption and reduction for small-scale VAT taxpayers, preferential CIT policies for qualified small and micro-sized enterprises, Urban Land Use Tax incentives for bulk commodity storage facilities owned or used by logistics enterprises.

Also, active efforts would be made to promote revisions to the Tendering and Bidding Law and the Government Procurement Law, to further standardize government procurement practices, and strive to eliminate unreasonable restrictions and barriers imposed on enterprises.

We will keep an eye on any further developments and advise you accordingly, please stay tuned.

You can click this link to access the full contents of Circular 645:
https://www.gov.cn/zhengce/zhengceku/202306/content_6886123.htm

► **Joint Statement between the People's Republic of China (PRC) and the Republic of Honduras (Honduras)**

Synopsis

On 12 June 2023, the PRC and Honduras issued a Joint Statement (hereinafter referred to as the "Joint Statement"). The objective of the Joint Statement is to deepen the PRC's relation with Honduras and promote sustainable development and shared prosperity under the framework of the Belt and Road Initiative.

According to the Joint Statement, both sides have reached a consensus on negotiating a bilateral free trade agreement and promoting pragmatic cooperation in various fields.

In particular, the PRC welcomes distinctive Honduran products to enter the Chinese market and is willing to provide convenience in this regard. On the other hand, the Chinese enterprises are encouraged to participate in Honduras' economic development, energy, environment, infrastructure, telecommunications, and other projects.

We will keep an eye on any further developments and advise you accordingly, please stay tuned.

You can click this link to access the full contents of the Joint Statement:
https://www.gov.cn/yaowen/liebiao/202306/content_6886010.htm

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

- ▶ **2023 Regulation Formulation Plan of Tax Administrations**
<http://www.chinatax.gov.cn/chinatax/n810214/c102374/c102375d/c5205263/content.html>
- ▶ **PN regarding the “Catalog of Energy Saving & New Energy Vehicles Eligible for Preferential Vehicle and Vessel Tax Policies (50th Batch)”, “Catalog of New Energy Vehicles Eligible for Vehicle Purchase Tax Exemption (66th Batch)”, etc. (MIIT PN [2023] No. 13)**
https://www.miit.gov.cn/zwgk/zcwj/wjfb/gg/art/2023/art_1101e5957b7d4019aa994edb7369c631.html
- ▶ **Regulations of Industry and Information Technology Departments on Administrative Penalty Procedures (MIIT Order [2023] No. 63)**
https://www.miit.gov.cn/zcfg/xzzfl/art/2023/art_d11a4df809394e0bb8b332431c5838f9.html
- ▶ **Guidelines for the Code of Conduct of Blind Box Business Activities (Trial) (Guoshijianjifa [2023] No. 39)**
https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/zfjcs/art/2023/art_e2facd76a7fb4e90b03912cffb5e7d53.html
- ▶ **PN regarding the revised criteria of origin under the Mainland and Hong Kong Closer Economic Partnership Arrangement (CEPA) (GAC PN [2023] No. 63)**
<http://www.customs.gov.cn/customs/302249/302266/302267/5080448/index.html>



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