



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 extending the policies related to venture capital enterprises and individual angel investors investing in technology start-ups (MOF/STA PN [2023] No. 17)**

Synopsis

According to Caishui [2018] No. 55 ("Circular 55", i.e., Notice regarding tax policies for venture capital enterprises and individual angel investors) and MOF/STA PN [2022] No. 6 ("PN 6", i.e., PN regarding extending the policies related to venture capital enterprises and individual angel investors investing in technology start-ups), from 1 January 2022 to 31 December 2023, venture capital enterprises and individual angel investors that have invested in technology start-ups for more than two years can continue to enjoy the relevant tax incentives; e.g., a venture capital enterprise that makes equity investments in a qualified technology start-up for at least two years (or 24 months) shall be allowed to use 70% of its investment cost to offset against its taxable income. Any excess amount can be carried forward and offset against the taxable income in subsequent tax years.

Among them, qualified technology start-ups should meet both of the following criteria and the criteria as prescribed in Circular 55:

- ▶ Total headcount should not exceed 300.
- ▶ Both total assets and annual turnover should not exceed RMB50 million.

To further support entrepreneurship and innovation, on 1 August 2023, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released MOF/STA PN [2023] No. 17 ("PN 17") to extend the implementation of the aforementioned treatment until 31 December 2027.

Relevant enterprises and individuals are advised to read PN 17 and the abovementioned policies for details to fully utilize the benefits offered. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of PN 17:

<http://www.chinatax.gov.cn/chinatax/n362/c5210421/content.html>

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

http://szs.mof.gov.cn/zhengcefabu/202202/t20220221_3788774.htm

You can click this link to access the full content of Circular 55:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c13973830/content.html>

- ▶ **PN regarding certain tax policies for further supporting and promoting the entrepreneurship and employment (MOF/STA/MOHRSS/MOA PN [2023] No. 15)**
- ▶ **PN regarding certain tax policies for further supporting veterans' entrepreneurship and employment (MOF/STA/MVA PN [2023] No. 14)**

Synopsis

To further support and promote entrepreneurship and employment, on 1 August 2023, the relevant central government authorities jointly released MOF/STA/MVA PN [2023] No. 14 ("PN 14") and MOF/STA/MOHRSS/MOA PN [2023] No. 15 ("PN 15") to continue supporting entrepreneurship and employment among veterans and key groups of individuals.

Notably, according to PN 14 and PN 15, employers will be eligible for tax reductions and exemption for Corporate Income Tax (CIT), Value-added Tax (VAT), City Construction Tax (CCT), Education Surcharges (ES) and Local Education Surcharges (LES) based on the actual number of new hires falling into one of the following categories:

- ▶ Impoverished individuals registered through China's national poverty alleviation program
- ▶ Individuals who have been registered as unemployed for more than six months
- ▶ Veterans

The fixed standard of reduction is RMB6,000 per person per year (may be increased by the local governments of up to 30% more for impoverished individuals and individuals unemployed, and up to 50% more for veterans). The reduction can only be utilized in the current year.

PN 14 and PN 15 shall be valid from 1 January 2023 to 31 December 2027. We noted that some enterprises have already gained bonus from such policy. Enterprises, especially those labor-intensive ones, are encouraged to review their current hiring status and consider whether they can benefit from such policy.

You can click this link to access the full content of PN 15:

http://szs.mof.gov.cn/zhengcefabu/202308/t20230802_3899899.htm

You can click this link to access the full content of PN 14:

http://szs.mof.gov.cn/zhengcefabu/202308/t20230802_3899906.htm

- ▶ **PN regarding extending the VAT reduction and exemption policies for small-scale taxpayers (MOF/STA PN [2023] No. 19)**
- ▶ **PN regarding the preferential tax and fee policies for further supporting the development of small and micro-sized enterprises (SMEs) and self-employed industrial and commercial households (SICHs) (MOF/STA PN [2023] No. 12)**

Synopsis

To further support the development of SMEs¹ and SICHs, on 1 August 2023, the MOF and STA jointly released MOF/STA PN [2023] No. 19 (“PN 19”), which extends the VAT reduction and exemption policies for small-scale taxpayers until 31 December 2027. Key points are as follows:

- ▶ Small-scale VAT taxpayers with monthly sales not exceeding RMB100,000 are exempt from VAT.
- ▶ The statutory VAT collection rate/provisional VAT rate at 3% for sales income/cross-region sales income² derived by small-scale VAT taxpayers is reduced to 1%.

In addition, on 2 August 2023, the MOF and STA jointly issued MOF/STA PN [2023] No. 12 (“PN 12”) to extend relevant tax and fee policies for supporting SMEs and SICHs. Among them, the key features of SMEs are as follows:

- ▶ A 50% reduction on the Resource Tax (excluding Water Resource Tax), CCT, Real Estate Tax, Urban Land Use Tax, Stamp Duty (SD, excluding those for security trading), Farmland Occupation Tax, ES and LES for small-scale VAT taxpayers and SMEs from 1 January 2023 to 31 December 2027.
- ▶ The preferential CIT policy for SMEs (i.e., 75% reduction on taxable income for CIT calculation purposes with the applicable CIT rate of 20%, which means the effective tax rate is 5%) will be extended to 31 December 2027.

Relevant SMEs and SICHs are advised to read PN 19 and PN 12 for details to leverage the benefits offered. If in doubt, consultations with professionals are always recommended.

¹ SMEs refer to those engaged in non-restricted and prohibited industries and met all the following thresholds:

- ▶ Annual taxable income does not exceed RMB3 million;
- ▶ Number of employees does not exceed 300; and
- ▶ Total assets do not exceed RMB50 million.

² According to the prevailing VAT rules, “cross-region sales income” generally refers to income derived by a VAT taxpayer through providing certain services like construction services, selling real estate, renting real estate, etc. across different administrative counties/districts/cities other than its own registered location. For instance, where a Shanghai taxpayer provides construction services in Beijing and derives income therein, the taxpayer is required to prepay VAT in Beijing it performs the services.

You can click this link to access the full contents of PN 19:

<http://www.chinatax.gov.cn/chinatax/n359/c5210417/content.html>

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

<http://www.chinatax.gov.cn/chinatax/n362/c5210440/content.html>



- ▶ **PN regarding tax policies on supporting financing of SMEs (MOF/STA PN [2023] No. 13)**
- ▶ **PN regarding the VAT exemption policies for financial institutions' interest income from the loans to SMEs (MOF/STA PN [2023] No. 16)**
- ▶ **PN regarding extending VAT policies related to financing guarantee for farmers, SMEs and SICHs (MOF/STA PN [2023] No. 18)**

Synopsis

To further support the development of SMEs, the MOF and STA jointly released MOF/STA PNs [2023] No. 13 ("PN 13") and No. 16 ("PN 16") on 2 August and 1 August 2023 respectively, announcing the following VAT exemption policies for interest income derived by financial institutions from small loans extended to SMEs and SICHs.

Key features of PN 13 and PN 16 are as follows:

Items	Details	
	PN 16	PN 13
Definition of small loans	It refers to loans extended to a SME/SICH with credit limits of no more than <u>RMB10 million</u> ; or it refers to loans with loan contract amounts and loan balances of no more than <u>RMB10 million</u> if without credit limits.	It refers to loans extended to a SME/SICH with credit limits of no more than <u>RMB1 million</u> ; or it refers to loans with loan contract amounts and loan balances of no more than <u>RMB1 million</u> if without credit limits.
VAT treatments on interest income from the small loans	<ul style="list-style-type: none"> ▶ Interest income under certain thresholds will be exempted. ▶ Ones exceeding certain thresholds will be taxed according to prevailing tax rules. ▶ Two methods for determining the thresholds can be selected. Once it is selected, it cannot be switched until the next calendar year. 	Exempted
SD treatments on loan agreements signed between financial institutions and SMEs	Not applicable to the exemption	Exempted
Requirements	Financial institutions are required to account for the VAT-exempted interest separately from other interest income, complete the VAT filing according to the prevailing regulations and maintain the relevant supporting documents for further references. If the VAT-exempted interest is not accounted for separately, the VAT exemption shall be denied.	
Period of validity	From 1 August 2023 to 31 December 2027	From 2 August 2023 to 31 December 2027

Furthermore, on 1 August 2023, the MOF and STA jointly released MOF/STA PN [2023] No. 18 ("PN 18") announcing that income derived by taxpayers from providing credit guarantee on loans or bond issuance for farmers, SMEs and SICHs (hereinafter referred to as "original guarantee") or from providing re-guarantee to the above original guaranteed contracts shall be exempt from VAT. In case the original guaranteed contracts are more than one, all the original guaranteed contracts shall be entitled to VAT exemption treatments, otherwise, the re-guaranteed contract should be subject to VAT.

Relevant taxpayers are encouraged to read PNs 13, 16 and 18 for greater details to fully leverage the relevant tax preferences. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full contents of PN 13:

https://www.gov.cn/zhengce/zhengceku/202308/content_6896295.htm

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

https://www.gov.cn/zhengce/zhengceku/202308/content_6896429.htm

You can click this link to access the full contents of PN 18:

https://www.gov.cn/zhengce/zhengceku/202308/content_6896607.htm

► **Three typical cases regarding the assessment of super deduction of research and development (R&D) expenses**

Synopsis

To facilitate accurate assessment of R&D activities for claiming super deduction of R&D expenses, on 31 July 2023, the Income Tax Department of the STA and the Department of Policy, Regulation and Innovation System of the Ministry of Science and Technology jointly announced the “three typical cases regarding the assessment of super deduction of R&D expenses” (hereinafter referred to as the “Typical Cases”).

Based on the announced cases and final opinions of experts during the assessments, R&D projects with the following characteristics may not be favorable to be included as R&D activities:

- The project objectives do not demonstrate innovation, such as the overall design of the project being a simple combination of existing mature industrialized products, or the core technology to be broken through is indeed an existing mature technology.
- The company’s description of the core technology and technical innovation points to be broken through in the R&D project are rather vague and lack quantitative definition.
- The project lacks documentation of experimental records during the implementation process (such as relevant test records, performance data, and pictures of the product).
- The main work content of the project itself has little impact on the final performance and does not reflect the characteristic of uncertain R&D results.

The publication of Typical Cases serves as a valuable reference for both taxpayers and tax officials to gain a better understanding of the characteristics of R&D activities. Taxpayers are encouraged to read and get familiarized with these cases to leverage the tax preference and assess potential tax risks. If in doubt, consultations with professionals are always helpful.

You can click this link to access the full contents of the Typical Cases:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5210354/content.html>

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

- **List of major preferential fiscal, tax and financial policies for the transportation industry in 2023 (Issue II)**
https://xxgk.mot.gov.cn/2020/jigou/cwsjs/202307/t20230728_3875618.html
- **PN regarding certain matters related to the implementation of preferential Individual Income Tax policies for supporting the development of SICHs (STA PN [2023] No. 12)**
<http://www.chinatax.gov.cn/chinatax/n363/c5210466/content.html>

- ▶ **Notice regarding measures to boost the recovery and expansion of consumption (Guobanhan [2023] No. 70)**
https://www.gov.cn/zhengce/content/202307/content_6895599.htm
- ▶ **Work Plan for Stabilizing the Development of the Light Industry (2023-2024) (Gongxinbulianxiaofei [2023] No. 101)**
https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2023/art_f5856fa68cb84107adaacbbb730779c5.html
- ▶ **A catalog of currently enforceable regulations on foreign exchange administration (as of 30 June 2023)**
<https://www.safe.gov.cn/safe/2023/0728/22990.html>
- ▶ **PN regarding public opinions consultation on the “Measures for Operational Risk Management of Banking and Insurance Institutions (Discussion Draft)”**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1120289&itemId=925&generaltype=0>
- ▶ **Notice regarding certain policy measures for promoting the development of private economy (Fagaitigai [2023] No. 1054)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz/202308/t20230801_1359007.html
- ▶ **Notice regarding policies measures for supporting the financing for SMEs (Gongxinbulianqiyehan [2023] No. 196)**
https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2023/art_3ea3ac63dd4d485c9e8af81fd5e44cdc.html
- ▶ **Notice regarding public opinions consultation on the “Administrative Regulations on Compliance Audit of Personal Information Processing Firms (Discussion Draft)”**
http://www.cac.gov.cn/2023-08/03/c_1692628348448092.htm
- ▶ **PN regarding the decision on commodity classifications for year 2023 (GAC PN [2023] No. 94)**
<http://www.customs.gov.cn/customs/302249/2480148/5179179/index.html>
- ▶ **PN regarding imposing temporary export controls on certain unmanned aerial vehicles (UAVs) (MOFCOM/GAC/SASTIND/EDDCMC PN [2023] No. 28)**
<http://www.mofcom.gov.cn/article/zcfb/zcblgg/202307/20230703424616.shtml>
- ▶ **PN regarding imposing export controls on certain UAV-related items (MOFCOM/GAC/SASTIND/EDDCMC PN [2023] No. 27)**
<http://www.mofcom.gov.cn/article/zcfb/zcblgg/202307/20230703424598.shtml>



Contact us

For more information, please contact your usual EY contact or one of the following EY's China tax leaders.

Greater China Tax Leader

Vickie Tan

+86 21 2228 2648

Vickie.Tan@cn.ey.com

Our tax leaders by service segment

Andrew Choy

International Tax and Transaction Services

+86 10 5815 3230

Andrew.Choy@cn.ey.com

Becky Lai

Tax Policy

+852 2629 3188

Becky.Lai@hk.ey.com

Alan Lan

Global Compliance and Reporting

+86 10 5815 3389

Alan.Lan@cn.ey.com

Jesse Lv

ITTS - Transaction Tax

+86 21 2228 2798

Jesse.Lv@cn.ey.com

Travis Qiu

ITTS - Transfer Pricing

+86 21 2228 2941

Travis.Qiu@cn.ey.com

Chuan Shi

Tax Technology and Transformation

+86 21 2228 4306

Chuan.Shi@cn.ey.com

Carrie Tang

Business Tax Services

+86 21 2228 2116

Carrie.Tang@cn.ey.com

Bryan Tang

Indirect Tax - Global Trade

+86 21 2228 2294

Bryan.Tang@cn.ey.com

Paul Wen

People Advisory Services

+852 2629 3876

Paul.Wen@hk.ey.com

Kevin Zhou

Indirect Tax - VAT

+86 21 2228 2178

Kevin.Zhou@cn.ey.com

Our tax leaders by service areas

Andrew Choy (China North)

+86 10 5815 3230

Andrew.Choy@cn.ey.com

Ho Sing Mak (China South)

+86 755 2502 8289

Ho-Sing.Mak@cn.ey.com

Wilson Cheng (Hong Kong

SAR/Macau SAR)

+852 2846 9066

Wilson.Cheng@hk.ey.com

Heidi Liu (Taiwan)

+886 2 2757 8888

Heidi.Liu@tw.ey.com

Author - China Tax Center

Jane Hui

+852 2629 3836

Jane.Hui@hk.ey.com

EY | Building a better working world

EY exists to build a better working world, helping to create long-term value for clients, people and society and build trust in the capital markets.

Enabled by data and technology, diverse EY teams in over 150 countries provide trust through assurance and help clients grow, transform and operate.

Working across assurance, consulting, law, strategy, tax and transactions, EY teams ask better questions to find new answers for the complex issues facing our world today.

EY refers to the global organization, and may refer to one or more, of the member firms of Ernst & Young Global Limited, each of which is a separate legal entity. Ernst & Young Global Limited, a UK company limited by guarantee, does not provide services to clients, nor does it own or control any member firm or act as the headquarters of any member firm. Information about how EY collects and uses personal data and a description of the rights individuals have under data protection legislation are available via ey.com/privacy. EY member firms do not practice law where prohibited by local laws. For more information about our organization, please visit ey.com.

© 2023 Ernst & Young, China.
All Rights Reserved.

APAC no. 03018032
ED None.

This material has been prepared for general informational purposes only and is not intended to be relied upon as accounting, tax, legal or other professional advice. Please refer to your advisors for specific advice.

ey.com/china

Follow us on WeChat

Scan the QR code and stay up-to-date with the latest EY news.

