

TAX LAW

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

- ▶ **Preferential Corporate Income Tax (CIT) policies for enterprises in the Shenzhen Park of the Hetao Shenzhen-Hong Kong Science and Technology Innovation Cooperation Zone (HTCZ) (Caishui [2024] No. 2)**
- ▶ **Preferential Individual Income Tax (IIT) policies for enterprises in the Shenzhen Park of the HTCZ (Caishui [2024] No. 5)**

Synopsis

To support the development of the Shenzhen Park of the HTCZ (hereinafter referred to as the "Hetao area¹"), the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released Caishui [2024] No. 2 (Circular 2) and Caishui [2024] No. 5 (Circular 5) recently to announce the relevant preferential CIT and IIT policies for qualifying enterprises or individuals in the Hetao area.

Key features of the preferential policies are as follows:

Items	Details
Preferential CIT policies as prescribed in Circular 2	
Preferential CIT treatment	Qualifying enterprises engaging in the encouraged industries ² in the designated closed area ³ of the Hetao area ("designated area") can enjoy a reduced CIT rate of 15%.
Criteria for the preferential CIT treatment	<ul style="list-style-type: none"> ▶ Revenue of a qualifying enterprise deriving from the encouraged industries should account for at least 60% of its total revenue; and ▶ The management is located within the designated area and they exercise substantial and overall management and control on business, personnel, accounting and properties, etc. of the enterprise.
Income eligible for the preferential CIT treatment	<ul style="list-style-type: none"> ▶ Income allocated to the head office and its branch(es) located in the designated area; or ▶ Income allocated to the branch(es) located in the designated area if the head office is outside. <p>The allocation of income between the head office and its branches with cross-region operations shall be according to the prevailing CIT policies.</p>
Preferential IIT policies as prescribed in Circular 5	
Preferential IIT treatment	For Hong Kong residents working in the Hetao area, the IIT burden exceeding that of Hong Kong will be exempted.
Income eligible for IIT exemption	<p>The IIT exemption shall apply to the following income of Hong Kong residents working in the Hetao area:</p> <ul style="list-style-type: none"> ▶ Consolidated income (i.e., the sum of salaries and wages, remuneration for personal services, authors' remuneration and royalties) that are derived from the Hetao area; and ▶ Operating income and any talent related subsidy income recognized by the local government.
When will the IIT exemption apply ⁴	The preferential IIT treatment shall only be adopted in the annual IIT filing in the Hetao area. It means that the withholding agents shall withhold IIT in full and the Hong Kong residents would apply for refunds in the annual IIT filing.

Both Circulars 2 and 5 are valid from 1 January 2023 to 31 December 2027.

¹ The Hetao area covers the Futian Bonded Zone and Huanggang Port District.

² The encouraged industries shall be referred to the Catalog of industries eligible for preferential CIT treatments in the Hetao area, i.e., the attachment of Circular 2.

³ The designated closed area of the Hetao area covers the same area as the Futian Bonded Zone.

⁴ As the Hetao area is a part of the Guangdong-Hong Kong-Macau Greater Bay Area, qualifying high-end and urgently needed talents, other than Hong Kong residents working in the Hetao area, may also be eligible for a financial subsidy to cover the portion of their IIT paid in Shenzhen that exceeds 15% of their taxable income. This financial subsidy paid to the individuals shall be exempt from IIT.

You can click this link to access the full contents of Circular 2:

https://www.sz.gov.cn/cn/xxgk/zfxxgj/tzgg/content/post_11138377.html

You can click this link to access the full contents of Circular 5:

https://www.sz.gov.cn/cn/xxgk/zfxxgj/tzgg/content/post_11138380.html

- ▶ **Public notice (PN) on consultation of public opinions on the “Regulations on the Implementation of Registered Capital Registration and Management System under the Company Law of the People’s Republic of China (PRC) (Discussion Draft)”**

Synopsis

According to the new Company Law that will be effective on 1 July 2024, the State Administration for Market Regulation released the “Regulations on the Implementation of Registered Capital Registration and Management System under the Company Law of the PRC (Discussion Draft)” (hereinafter referred to as the “Discussion Draft”) on 6 February 2024 to seek public opinion. The consultation of public opinions will be opened until 5 March 2024.

The Discussion Draft consists of 15 articles. Among these, the following points are worth noting:

- ▶ Setting out a three-year transition period (i.e., from 1 July 2024 to 30 June 2027) for existing companies to comply with the requirements on capital contribution deadlines under the new Company Law. As such, after the new Company Law takes effect on 1 July 2024, the existing limited liability companies with shareholders whose subscribed capital with a contribution period of more than five years should adjust the remaining contribution period to within five years during the three-year transition period. For the existing joint-stock companies, shareholders should fully pay up the subscribed shares within the three-year transition period.
- ▶ Clarifying the application rules for capital contribution deadlines for newly set up companies. In accordance with the new Company Law, limited liability companies should contribute the registered capital within five years from the date of establishment and stipulate the same in their articles of association, while joint-stock companies should fully pay up the subscribed shares before registration. On top of these, the Discussion Draft clarifies the application rules for capital increases as follows:
 - ▶ Newly increased subscribed registered capital of limited liability companies should be paid up within five years.
 - ▶ For joint-stock companies increasing registered capital, the registration of capital increase should be handled after all shareholders have fully paid up the subscribed shares.
 - ▶ Limited liability companies and joint-stock companies established through sponsor establishment or targeted fundraising do not need to submit a capital verification report when applying for company registration.
- ▶ Simplifying the capital reduction process. For qualifying companies, they may publicly disclose information through the National Enterprise Credit Information Publicity System for 20 days, and if there are no objections during the disclosure period, the companies may proceed with capital reduction procedures.
- ▶ Clarifying exceptions for specific companies:
 - ▶ For private, foreign-invested, state-owned, and other companies that are established before the implementation of the new Company Law, if they undertake important national strategic tasks, are related to national livelihood or national security, or involved in significant public interests, they may contribute according to the original contribution deadlines with the approval of the competent department under the State Council or the provincial or higher-level people’s government.
 - ▶ For companies established before the implementation of the new Company Law, if they have had their business licenses revoked, been ordered to close, or been canceled, resulting in the inability to adjust the registered capital, or for companies that cannot be contacted through their registered addresses or business premises and have been listed as abnormal operation, the companies’ registration authorities shall manage them separately and make special annotations and disclosures on the National Enterprise Credit Information Publicity System.

Besides, the Discussion Draft also proposes clear determination and handling for significant abnormal capital contribution, that it sets out the deadlines and amounts, as well as specific requirements for information disclosure.

Concerned investors and businesses are encouraged to read the Discussion Draft and express opinions on or before 5 March 2024 by emailing djjzdc@samr.gov.cn or logging onto <http://www.samr.gov.cn>.

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

https://www.samr.gov.cn/hd/zjdc/art/2024/art_f9f3f2d431474f0aa453786a9e5dd5cb.html

You can click this link to access the full contents of the new Company Law:

http://www.npc.gov.cn/npc/c2/c30834/202312/t20231229_433999.html

► **Notice issued by the Shanghai Municipal Commission of Commerce and Shanghai Municipal Finance Bureau regarding the revised “Administrative Measures on Funds for Supporting Regional Headquarters of Multinational Corporations in Shanghai” (Hushanggui [2024] No. 2)**

Synopsis

According to Hufugui [2022] No. 17 (Circular 17, i.e., the Regulations on Encouraging Multinational Corporations to Establish Regional Headquarters in Shanghai) and Hufubangui [2020] No. 15 (Circular 15, i.e., the Regulations of Shanghai Municipality on Encouraging the Establishment and Development of Foreign-funded Research and Development (R&D) Centers), the Shanghai Municipal Commission of Commerce and Shanghai Municipal Finance Bureau jointly issued the “Revised Administrative Measures on Funds for Supporting Regional Headquarters of Multinational Corporations in Shanghai” (hereinafter referred to as the “Revised Measures”) via Hushanggui [2024] No. 2 on 1 February 2024.

According to the Revised Measures, headquarters funds would be provided to qualifying regional headquarters of multinational corporations, business unit headquarters of multinational corporations (hereinafter referred to as the “HQs”), and global R&D centers that meet the relevant requirements:

Categories	Details
Startup subsidy	The startup subsidy of RMB5 million for qualifying new regional/business unit HQs, and global R&D centers will be provided in three annual payments over three years.
Rental subsidy	The rental subsidy up to 30% on rent (based on the standard of no more than 1,000 square meters of office space and no more than 8 RMB per square meter per day) for qualifying new regional/business unit HQs and R&D centers will be provided for three years.
Incentive for residence of senior management	One-time incentive of RMB3 million for qualifying regional/business unit HQs covering Asia, Asia-Pacific, or a larger region.
Business performance incentive	Rewards of up to RMB10 million based on annual sales revenue tiers from RMB0.5 billion for qualifying regional HQs and from RMB1 billion for business unit HQs will be provided in three annual payments over three years.
Capital increase reward	One-time reward of RMB2 million for annual capital increase of at least USD30 million (except for investment in real estate, finance, or quasi-financial industry projects).

The Revised Measures are valid from 1 February 2024 to 31 January 2029. Relevant investors and businesses are encouraged to read the Revised Measures for more details and make appropriate business planning to enjoy these benefits.

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

<https://swwww.sh.gov.cn/zwgkxsgwj/20240205/07af281937144d9ba83d28339368b7b6.html>

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

<https://www.shanghai.gov.cn/nw12344/20221107/6fa86f4b65554f43bc9633fca378ffa9.html>

You can click this link to access the full contents of Circular 15:

https://service.shanghai.gov.cn/XingZhengWenDangKuJyh/XZGFDDetails.aspx?docid=REPORT_NDOC_006871

► **Implementation plan of Shanghai on the “Overall plan for promoting the opening up of the China (Shanghai) Pilot Free Trade Zone to make it comprehensively align with the high-standard international economic and trade rules” (Hufufa [2024] No. 1)**

Synopsis

To fully implement the pilot tasks of overall plan for promoting the opening up of the China (Shanghai) Pilot Free Trade Zone to make it comprehensively align with the high-standard international economic and trade rules (hereinafter referred to as the “Overall Plan”), Shanghai Municipal People’s Government released Hufufa [2024] No. 1 (Circular 1) on 3 February 2024.

Circular 1 proposes 117 measures on eight areas. On the one hand, it continually optimizes measures for the border and increases the flow of goods and key elements; on the other hand, it steadily deepens institutional opening up. Key measures include the followings:

- Accelerating the opening up of trade in services, such as facilitating electronic payment services and supporting multinational corporations to set up global or regional treasury centers in the financial sector.
- Enhancing the liberalization and facilitation of trade in goods, including allowing bonded goods to be converted into domestic sales and simplifying quarantine procedures for specific imported goods to further improve the efficiency and reduce the cost of customs clearance; meanwhile, improving customs supervision and law enforcement measures, expanding the scope of advance ruling applicants to create a market-oriented, legal, and first-class international port business environment.
- Implementing high-standard digital trade rules. A number of measures of Circular 1 supporting the development of digital industries and digital enterprises in the areas of regulating and facilitating cross-border data flow, promoting the application of digital technologies, and promoting sharing of data.
- Promoting the reform of post-border management systems, including the alignment of post-border rules, deepening the reform of state-owned enterprises and stimulating market vitality and social creativity.

In addition, Circular 1 also emphasizes enhancing the protection of intellectual property rights, the promotion of reforms in the field of government procurement, strengthening the risk prevention and control system and relevant safeguards.

Relevant investors and businesses are encouraged to read Circular 1 for more details and consider the potential investment and business opportunities.

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

<https://www.shanghai.gov.cn/nw12344/20240205/2af907af61cf4977866b7d377baf5d1d.html>

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

https://www.gov.cn/zhengce/content/202312/content_6918913.htm

- ▶ **Administrative measures of the PRC Customs on the tax exemption of import goods in the Guangdong-Macau In-Depth Cooperation Zone in Hengqin (GAC PN [2024] No. 18)**

Synopsis

According to the Overall Plan for Building a Guangdong-Macau In-depth Cooperation Zone in Hengqin (Hengqin), the General Administration of Customs (GAC) issued GAC PN [2024] No. 18 on 6 February 2024 to announce the “Administrative measures of the PRC Customs on the tax exemption of import goods in Hengqin” (hereinafter referred to as the “Administrative Measures”).

According to the Administrative Measures, enterprises and institutions registered in Hengqin as importers, can import self-used equipment, infrastructure materials and other tax-exempt goods (except for those not applicable to the tax exemption) free of import-level Customs Duty, Value-added Tax and Consumption Tax.

Except as otherwise prescribed, the customs supervision period for the aforesaid tax-exempt goods shall be three years. The tax-exempt goods would be subject to e-ledger management, with the customs supervision of their import, use, transfer, return shipment, etc. within the customs supervision period. The importers would be required to report to the customs on the use of tax-exempt goods and proactively declare changes in information such as goods mortgage and diversion within the customs supervision period. The customs will carry out investigations and reviews on the use of tax-exempt goods.

The Administrative Measures shall come into force on the day when Hengqin is officially sealed as a special customs zone with relaxed entry rules but customs control on exit⁵.

⁵ According to the “Notice on the Sealed Operations of Hengqin”, Hengqin will officially be designated as a special customs zone with relaxed entry rules but customs control on exit, allowing tax-exempted benefits and free movement within the zone, effective from 0:00 on 1 March 2024.

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

<http://www.customs.gov.cn/customs/302249/302266/302267/5678597/index.html>

You can click this link to access the full contents of the Overall Plan for Building a Guangdong-Macau In-depth Cooperation Zone in Hengqin:

https://www.gov.cn/zhengce/2021-09/05/content_5635547.htm

You can click this link to access the full contents of the Notice on the Closure and Operation of Hengqin:

https://hengqin.gd.gov.cn/zqq/tzgg/content/post_4362838.html

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

- ▶ **PN regarding revising certain tax law enforcement documents (STA PN [2024] No. 1)**

<https://fgk.chinatax.gov.cn/zcfgk/c100012/c5221131/content.html>

- ▶ **PN regarding the “Catalog of Energy Saving & New Energy Vehicles Eligible for Preferential Vehicle and Vessel Tax Policies (58th Batch)”, “Catalog of New Energy Vehicle Eligible for Vehicle Purchase Tax Reduction and Exemption (2nd)” (MIIT PN [2024] No. 1)**

https://wap.miit.gov.cn/jgsj/zbyw/wjfb/art/2024/art_daa9350939df4d65907fd5eebaa9e18c.html

- ▶ **Administrative Measures for Fixed Assets Loans (NFRA Order [2024] No. 1)**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1151060>
- ▶ **Administrative Measures for Working Capital Loans (NFRA Order [2024] No. 2)**
<https://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1151066>
- ▶ **Provisional Administrative Regulations on Carbon Emissions Trading (State Council Order [2024] No. 775)**
https://www.gov.cn/zhengce/content/202402/content_6930137.htm
- ▶ **A catalog of currently enforceable regulations on foreign exchange administration (as of 31 December 2023)**
<https://www.safe.gov.cn/safe/2024/0131/23946.html>
- ▶ **Measures of the Ministry of Natural Resources on Administrative Penalty (MNR Order [2024] No. 12)**
http://gk.mnr.gov.cn/zc/gz/202402/t20240205_2837163.html
- ▶ **Notice regarding improving the anti-monopoly compliance risk warning mechanism for the concentration of business operators (Shijianfanzhierfa [2024] No. 7)**
https://www.samr.gov.cn/zw/zfxxgk/fdzdgknr/fldzfes/art/2024/art_9ad83b67440a494c9ad0c1d32fce8773.html
- ▶ **PN regarding matters related to the export of used car (MOFCOM/MIIT/MPS/MOT/GAC PN [2024] No. 6)**
<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202402/20240203472081.shtml>
- ▶ **Opinions on supporting the healthy development of trade and cooperation in new energy vehicles (Shangmaofa [2023] No. 289)**
<http://www.mofcom.gov.cn/article/zwgk/gkzcfb/202402/20240203472074.shtml>
- ▶ **Opinions on promoting green development in Xiongan New Area to build an exemplary sustainable city (Fagaihuanzi [2024] No. 73)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz/202402/t20240208_1364018.html
- ▶ **Energy efficiency, energy saving, and market access levels of key energy-consuming products and equipment (2024 version) (Fagaihuanzigui [2024] No. 127)**
https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj/202402/t20240207_1364001.html
- ▶ **PN regarding the revisions to the legal documents and forms involved in “Administrative Measures of the Customs of the PRC for the Credit of Enterprises Registration and Record Filing” (GAC PN [2024] No. 17)**
<http://www.customs.gov.cn/customs/302249/302266/302267/5674440/index.html>
- ▶ **Notice regarding public opinions consultation on the “Administrative Measures of the PRC on the Issuance of Certificates of Origin for Exported Goods (Discussion Draft)”**
<http://www.customs.gov.cn/customs/302452/302329/zjz/5668928/index.html>



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