

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

- ▶ Notice regarding the pilot run of preferential Stamp Duty (SD) policies on offshore trade in China (Shanghai) Pilot Free Trade Zone (SHPFTZ) and Lin-gang Special Area of SHPFTZ (Caishui [2024] No. 8)

Synopsis

To support the development of offshore trade in the free trade pilot zones, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released Caishui [2024] No. 8 (Circular 8) on 6 February 2024.

According to Circular 8, from 1 April 2024 to 31 March 2025, contracts for offshore resale¹ transactions entered by enterprises registered in SHPFTZ and Lingang Special Area shall be exempt from SD.

Relevant enterprises are encouraged to read Circular 8 for details so as to enjoy this preferential SD policies offered. If in doubt, consultations with professionals are always recommended.

¹ Offshore resale refers to a transaction where a resident enterprise purchases goods from a non-resident enterprise and then resells those goods to another non-resident enterprise, and the goods have ever physically entered or exited China's customs territory.

You can click this link to access the full contents of Circular 8:

https://szs.mof.gov.cn/zhengcefabu/202402/t20240218_3928665.htm

- ▶ Various local tax services under the STA announced arrangements for the 2023 annual Corporate Income Tax (CIT) filing

Synopsis

Recently, certain tax authorities at the local level have announced notices regarding the arrangements related to the 2023 annual CIT filing which will be due on 31 May 2024. We take the notices released by the local tax authorities of Shanghai, Tianjin and Shenzhen as examples to highlight below some key information that taxpayers should pay special attention to:

- No updates among the 2023 annual CIT filing package
- CIT refund

Since 2021 annual CIT filing, taxpayers who have overpaid their CIT under provisional CIT filings should apply for CIT refund and such overpaid CIT cannot be used to set off against future CIT payables. As such, relevant taxpayers should formally apply for CIT refund timely after completion of their annual CIT filing.

- Risk reminder service

The Shanghai Municipal Tax Service, STA has added a new measure of pre-reminder service, which will collect the doubtful points of previous annual CIT filings by the enterprise to form a risk reminder report. The tax authority will remind the taxpayer of the report before the 2023 annual CIT filing. Taxpayers should read the reminder and make corrections (if any) to reduce tax risks.

Besides, according to the Notices issued by the Shenzhen Tax Service, STA and Tianjin Municipal Tax Service, STA and tax authorities in Shenzhen and Tianjin also provide risk scanning services via online systems. Taxpayers may choose to use the services. For example, taxpayers in Tianjin may choose to click on the "Risk Reminder Service" to initiate the risk scanning of tax compliance on their own and modify the content of the statement according to the scanning result. They may also choose to skip the service and continue the annual CIT filing.

- Self-assessment and supporting documents

Taxpayers should perform self-assessment to determine whether preferential CIT treatments are applicable before they apply for them in the annual CIT filing by filling out the CIT returns and maintain the relevant documents.

- Taxpayers engaging in key industries or activities

Taxpayers in Shanghai, Tianjin and Shenzhen that engage in certain key industries and enjoy the corresponding preferential CIT policies (e.g., integrated circuit manufacturing or design and software enterprises) are required to submit the relevant documents to the tax authorities upon completion of the annual CIT filing. For taxpayers in Shanghai, the relevant documents can be transmitted to the Shanghai Electronic Taxation Bureau, while in Shenzhen, taxpayers can transmit the relevant documents to the Shenzhen Electronic Taxation Bureau or on-site.

In addition, according to the Notice issued by the Shanghai Municipal Tax Service, STA, Shanghai taxpayers that engage in research and development (R&D) activities and enjoy the R&D super deduction policy may choose to use the 2018 optimized version of subsidiary ledgers issued by the Shanghai Municipal Taxation Services, STA or the simplified version of subsidiary ledgers (i.e., format and commentaries are set out in Attachments I and II of STA PN [2021] No. 28 (PN 28, i.e., Public notice (PN) regarding certain matters related to further implementing the policies for super deduction of R&D expenses)).

- Corrections made on the annual CIT filing packages

Any additional CIT payments due to corrections made on or before 31 May 2024 are not subject to late payment surcharge. A taxpayer who finds an error made in the annual CIT filing after the filing deadline may correct the filing, however, if the correction results in any CIT underpayment, it will be subject to late payment surcharge starting from 1 June 2024.

Taxpayers are advised to read the notices and guidance released by their supervising tax authorities and plan ahead before submitting their annual CIT filing packages. If in doubt, earlier consultations with professionals or the supervising tax authorities are always recommended. Also, taxpayers should check and ensure all supporting documents are in place and sufficient for supervising tax authorities' future inquiry.

You can click this link to access the full contents of the Notice released by Shanghai Municipal Tax Service, STA:
<https://shanghai.chinatax.gov.cn/xwdt/ztzl/zcgll/hsqjzl/bslcqy/202402/t470694.html>

You can click this link to access the full contents of the Notices released by Tianjin Municipal Tax Service, STA:
<https://tianjin.chinatax.gov.cn/11200000000/0100/010003/20240221101817340.shtml>
<http://tianjin.chinatax.gov.cn/11200000000/0100/010003/20240221101856512.shtml>

You can click this link to access the full contents of the Notice released by Shenzhen Tax Service, STA:
<https://shenzhen.chinatax.gov.cn/sztax/xxgk/tzgg/202402/e00688ebd87a474c9b2ec01c450af41c.shtml>

You can click this link to access the full contents of PN 28:
https://www.gov.cn/zhengce/zhengceku/2021-09/15/content_5637316.htm

Business circular

- Notice regarding public opinions consultation on the "Notice issued by the State Administration of Foreign Exchange regarding Further Improving Foreign Exchange Business under Trade (Discussion Draft)"

Synopsis

To further promote the facilitation of foreign exchange business under trade and enhance the ability to serve the real economy, on 18 February 2024, the State Administration of Foreign Exchange (SAFE) released the "Notice regarding Further Improving Foreign Exchange Business under Trade (Discussion Draft)" (hereinafter referred to as the "Discussion Draft") to seek public opinion. The consultation of public opinion shall be opened until 29 February 2024.

Key features proposed in the Discussion Draft include:

- The registration and approval requirements for trade enterprise catalog² conducted by local branches of the SAFE will be removed. Instead, commercial banks will directly handle the registration of enterprises to be listed in the trade enterprise catalog.

- Further facilitation of cross-border trade receipts and payments:
 - Commercial banks can simplify the procedures for handling receipts and payments that are inconsistent with import and export enterprises within the customs special supervision areas according to the principle of business expansion
 - Commercial banks may handle special foreign exchange returns (non-original route returns or returns exceeding 180 days) for Class A enterprises' goods trade, with a single transaction cap of USD200,000 (or its equivalent). The prevailing cap for a single transaction is USD50,000.
 - Class B and C enterprises that meet certain conditions can handle deferred receipts and payments exceeding 90 days after registration with local branches of the SAFE.
- Proposes to abolish Huifa [2012] No. 38 (Circular 38, i.e., "Notice on issues concerning regulations on foreign exchange administration of goods trade") and incorporates its effective content related to enterprises' foreign exchange business handling into the Discussion Draft.

Concerned businesses are encouraged to read the Discussion Draft. We will keep an eye on any further developments and advise you accordingly. Please stay tuned.

² According to the prevailing rules, enterprises that have genuine foreign exchange receipt and payment needs for trade of goods can apply to their local branch of the SAFE to register in the trade enterprise catalog. Only after being registered in the catalog can conduct foreign exchange receipt and payment business related to goods trade.

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

<https://www.safe.gov.cn/safe/2024/0218/24006.html>

You can click this link to access the full contents of Circular 38:

<https://www.safe.gov.cn/safe/2012/0630/5426.html>

Customs circular

► Notice on the Sealed Operations of the Guangdong-Macau In-Depth Cooperation Zone in Hengqin

Synopsis

According to the Overall Plan for Building a Guangdong-Macau In-depth Cooperation Zone in Hengqin (hereinafter referred to as the "Cooperation Zone") and the Overall Development Plan for the Cooperation Zone, on 8 February 2024, the Executive Committee of the Cooperation Zone and Working Office of the Cooperation Zone of the People's Government of Guangdong Province jointly released the Notice on the Sealed Operations of the Cooperation Zone to specify that the Cooperation Zone will officially be designated as a special customs zone with relaxed entry rules but customs control on exit, allowing tax-exempted benefits and goods free movement within the zone, effective from 0:00 on 1 March 2024.

Area of the Cooperation Zone

The boundary between Hengqin and Macau is set as the "first line"; the boundary between Hengqin and other areas within the customs territory of the People's Republic of China (PRC) is set as the "second line". The area of the Cooperation Zone is the customs supervision area between the "first line" and "second line" of Hengqin Island.

Special customs policies for the Cooperation Zone

- Customs duties shall be exempted or bonded for goods and commodities entering the Cooperation Zone through "first line", unless otherwise provided.
- Goods and commodities entering the Cooperation Zone through "second line" will be regarded as exports and the rules on the refund of Value-added Tax (VAT) for export and Consumption Tax (CT) will apply. Where applicable, export duties will be levied.

- Duty-free (bonded) goods and commodities entering the other areas within the customs territory of the PRC through “second line” shall go through customs formalities and customs duties, with import-level taxes to be levied in accordance with the relevant regulations.
- Goods and commodities entering and exiting through “first line” shall continue to be subject to the administration of record filing.
- For goods processed by enterprises in the Cooperation Zone without imported materials or if processed with imported materials, the value added by the processing is or exceeds 30%, import duty shall be exempted when entering the other areas within the customs territory of the PRC through “second line”.

Documents shall come into force on 1 March 2024

Circular no.	Title
Caiguanshui [2024] No. 1	Notice regarding certain import/export-level tax policies on goods for the Cooperation Zone
Caiguanshui [2024] No. 2	Notice regarding tax policies on personal luggage and goods delivery for the Cooperation Zone
Caishui [2024] No. 1	Notice regarding adjusting the scope of goods subject to export VAT and CT refunds in the Cooperation Zone
GAC PN [2023] No. 202	Measures of the Customs of the PRC on the Supervision and Administration of the Cooperation Zone
GAC PN [2024] No. 4	PN regarding the simplification of requirements on the declaration of duty-free /bonded goods in the Cooperation Zone
GAC PN [2024] No. 10	Measures of the Customs of the PRC for the Collection and Administration of Taxes on Domestic Sales of Value-added Goods Processed in the Cooperation Zone

In addition to the abovementioned preferential indirect tax policies for the Cooperation Zone, it also has certain preferential income tax policies³. Businesses may consider these benefits when making their business planning. We will keep an eye on any further developments and advise you accordingly. Please stay tuned.

³ *Preferential income tax policies:*

- *Enterprises under qualified industries in the Cooperation Zone will be eligible for a reduced CIT rate of 15%.*
- *Both fixed assets (except for real estates or constructions) and intangible assets, which are newly acquired through means of purchase, self-construction, or self-development, with a unit value not exceeding RMB5 million may be claimed for 100% CIT deduction upfront.*
- *Income derived from incremental outbound direct investment of tourism, modern service and high-tech enterprises that are established in the Cooperation Zone shall be exempted from CIT.*
- *For domestic and overseas high-end talent and urgently needed talent working in the Cooperation Zone, the part of the Individual Income Tax (IIT) burden exceeding 15% shall be exempted. IIT imposed on Macau residents working in the Cooperation Zone that exceeds the tax burden in Macau will also be exempted.*

You can click this link to access the full contents of Notice on the Sealed Operations of the Cooperation Zone:
https://hengqin.gd.gov.cn/zwgk/tzgg/content/post_4362837.html

You can click this link to access the full contents of Overall Plan for Building a Cooperation Zone:
https://www.gov.cn/zhengce/2021-09/05/content_5635547.htm

You can click this link to access the full contents of Overall Development Plan for the Cooperation Zone:
https://www.gov.cn/lianbo/bumen/202312/content_6921764.htm

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

- ▶ Notice regarding matters related to information disclosure in the 2023 annual report of publicly offered infrastructure real estate investment trusts (REITs) (Shangzhengfa [2024] No. 20)
<http://www.sse.com.cn/lawandrules/sselawsrules/reits/c/5735490.shtml>
- ▶ Approval on the “Overall Plan for Building the Shanghai Eastern Hub International Business Cooperation Zone” (Guohan [2024] No. 30)
https://www.gov.cn/zhengce/content/202402/content_6931997.htm
- ▶ Guiding opinions on further regulating and overseeing the setting and enforcement of fines (Guofa [2024] No. 5)
https://www.gov.cn/zhengce/content/202402/content_6932004.htm
- ▶ Measures on Supervision and Rating of Auto Finance Companies (Jingui [2024] No. 1)
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1152569>
- ▶ Procedural Guidelines on Bank Confirmation (Caibankuai [2024] No. 2)
http://czt.shandong.gov.cn/art/2024/2/20/art_17085_10318512.html



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