

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.

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Tax circulars

- ▶ **Notice on formulating the list of advanced industrial machinery enterprises eligible for research and development (R&D) expenses super deductions for the year 2023 (MIIT Liantongzhuanghan [2024] No. 60)**

Synopsis

According to MOF/STA/NDRC/MIIT PN [2023] No. 44 (PN 44, i.e., Public notice (PN) regarding raising the super deduction ratio of R&D expenses of integrated circuit (IC) enterprises and enterprises that produce and sell advanced industrial machinery), from 1 January 2023 to 31 December 2027, IC enterprises and enterprises that produce and sell advanced industrial machinery (hereinafter referred to as the "advanced industrial machinery enterprises") are eligible for an enhanced Corporate Income Tax (CIT) super deduction policy, i.e., the 220% super deduction of R&D expenses (instead of 200% for other eligible enterprises).

In accordance with PN 44, on 8 February 2024, the Ministry of Industry and Information Technology (MIIT), National Development and Reform Commission (NDRC), Ministry of Finance (MOF), and State Taxation Administration (STA) jointly released MIIT Liantongzhuanghan [2024] No. 60 (Circular 60) to specify the applicable conditions and the arrangements on formulating the list of advanced industrial machinery enterprises.

Key features of Circular 60 are as follows:

Items	Details
Eligible advanced industrial machinery enterprise	<p>An eligible advanced industrial machinery enterprise applying for the 220% super deduction in 2023 should meet all the following criteria:</p> <ul style="list-style-type: none"> ▶ The enterprise manufactures and sells advanced industrial machinery hosts, key functional components, numerical control systems (hereinafter collectively referred to as the “advanced industrial machinery products”) as listed in the “Basic Standards for Advanced Industrial Machinery Products” (i.e., the attachment of PN 44). ▶ The average number of R&D personnel for the advanced industrial machinery products (with labor contracts or dispatch/employment relations with the enterprise) accounts for at least 15% of the total average number of employees per month. ▶ The R&D expenses of the enterprise account for at least 5% of the total sales or operating income¹. ▶ The revenue from sales of the advanced industrial machinery products by the enterprise accounts for at least 60% of the total sales or operating income, and the total income of the enterprises is RMB30 million or above.
How to apply	<p>An eligible enterprise should log onto www.gymjtax.com before 31 March 2024 to submit the application online and generate paper documents affixed with the enterprise seal before submitting the paper documents and supporting materials (both electronic and print versions) to the local competent authorities of the MIIT.</p>
Process of list formulation	<ul style="list-style-type: none"> ▶ The local competent authorities will preliminarily review applications online and submit a preliminary approval list to the MIIT by 15 April 2024. ▶ The MIIT will organize third-party verification of applications and formulate the final list in coordination with the NDRC, MOF and STA after comprehensive review. ▶ Enterprises may check online if they have been included in the list after 10 May 2024.

Once enterprises are included in the list, the taxpayers can apply the 220% super deduction of R&D expenses in 2023 annual CIT filing (to be completed by 31 May 2024). In addition, these listed enterprises may assess their eligibilities to claim the super deduction in the 2024 provisional CIT filings. However, for those enterprises that claim the super deduction in the 2024 provisional CIT filings but later are excluded from the list in 2024, they should make up the shortfall in the 2024 annual CIT filing.

Enterprises are advised to read Circular 60 and PN 40 for more details and self-assess their eligibilities for the super deduction. Eligible enterprises should file the application within the prescribed deadline.

¹ The total sales or operating income refers to the sum of main business income and other business income.

You can click this link to access the full contents of Circular 60:

https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2024/art_ebea5ddcf5c145019a5abb1210e19179.html

You can click this link to access the full contents of PN 44:

https://szs.mof.gov.cn/zhengcefabu/202309/t20230918_3907700.htm

► **Questions & answers (Q&As) on 2023 annual Individual Income Tax (IIT) filing**

Synopsis

Following STA PN [2024] No. 2 (PN 2, i.e., PN regarding matters related to the 2023 annual IIT filing for consolidated income), the General Office of the STA issued the “Q&As on 2023 annual IIT filing” (hereinafter referred to as the “Q&As”) on 28 February 2024 to answer 10 related questions.

Among them, notable optimized services for the 2023 annual IIT filing are as follows:

- Further expanding the scope of priority tax refund services. For resident taxpayers (hereinafter referred to as the “taxpayers”) with annual consolidated income (i.e., wages and salaries, personal service remuneration, authors’ remuneration and royalties) of less than RMB60,000 who have paid their IIT in advance, priority tax refund services are provided to them in addition to prevailing simplified declaration and fast-tracking services.
- Further expanding the declaration items on the annual IIT return of the pre-filing services, i.e., providing taxpayers with pre-filing services for the specific additional tax deduction on medical expenses for serious illness and private pensions based on shared medical expense data and private pension data by the relevant government authorities.
- Further optimizing the operating experience of taxpayers’ IIT APP, including upgrading the version of IIT APP to avoid cross-cutting service functions, integrating the display of inquiry matters, and highlighting the “to-do” prompt.
- The supervision of additional tax deductions has been strengthened this year, and tax authorities will provide reminders through IIT APP, website or withholding agents for cases where specific additional tax deductions are not claimed properly.

It is noteworthy that, the 2023 annual IIT filing should be completed within the period from 1 March 2023 to 30 June 2024. Where a taxpayer has underpaid IIT (of more than RMB400) for the year 2023 but fails to pay it on or before 30 June 2024, the individual shall be subject to late payment surcharges according to the prevailing rules and this late payment shall be recorded in his or her IIT filing records.

Relevant employers and individual taxpayers are advised to read the abovementioned Q&As and PN 2 for details and promptly act on it accordingly. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full contents of Q&As:

<https://fgk.chinatax.gov.cn/zcfgk/c100015/c5221449/content.html>

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

<https://fgk.chinatax.gov.cn/zcfgk/c100012/c5221099/content.html>

► **Notice issued by the Economic Development Bureau of Guangdong-Macau In-Depth Cooperation Zone in Hengqin (Hengqin) regarding extending the application period for the preferential IIT policies for high-end and urgently needed talent in Hengqin for the year 2023**

Synopsis

According to Guidelines on the application for preferential IIT policies for high-end and urgently needed talent in Hengqin for the year 2023 (hereinafter referred to as the “Guidelines”), qualifying individuals are eligible for the following IIT preferential treatments:

- For domestic and overseas high-end or urgently needed talent working in Hengqin, their IIT burden exceeding 15% shall be exempted.
- For IIT imposed on Macau residents working in Hengqin that exceeds the tax burden in Macau, the excess shall be exempted.

It is worth noting that:

- ▶ Qualifying individuals (hereinafter referred to as the “applicants”) should cooperate with their qualifying employers to apply for the preferential IIT policies. Applicants are not eligible for the application if their employers do not meet the application requirements.
- ▶ Applicants and employers should file the application on or before the application deadline. Failure to do so will automatically be considered as giving up.
- ▶ Applicants and employers shall supplement and complete the corresponding materials within two working days when the application returned due to inaccurate information, etc. Failure to do so will automatically be considered as surrendering the right to pursue the benefits.
- ▶ For individuals who enjoy preferential IIT policies for high-end and urgently needed talent in Hengqin are not eligible for applying the same type of income preferential policies in the same year.

To further support the entrepreneurship of enterprises in Hengqin and stimulate the development of talent, the Economic Development Bureau of Hengqin released a notice regarding extending the application period for the preferential IIT policies for high-end and urgently needed talent in Hengqin for the year 2023 (hereinafter referred to as the “Extension Notice”) on 28 February 2024, to extend the application deadline to 15 March 2024 from 1 March 2024 as originally prescribed in the Guidelines.

Relevant employers and individual taxpayers are suggested to read the Guidelines and Extension Notice for details and promptly act on it accordingly. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full contents of the Extension Notice:

http://www.hengqin.gov.cn/macao_zh_hans/zwgk/tzgg/gg/content/post_3637391.html

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

https://www.hengqin.gov.cn/macao_zh_hans/zwgk/tzgg/gg/content/post_3623627.html

Business circular

- ▶ **Opinions on encouraging multinational corporations to establish regional headquarters (RHQs) and functional organizations in Jiangsu (2024 Version)**

Synopsis

To promote high-level opening-up, further attract and utilize foreign investment, and encourage multinational corporations to set up RHQs and functional organizations in Jiangsu Province, on 28 February 2024, the Department of Commerce of Jiangsu Province and Department of Finance of Jiangsu Province jointly announced the “Opinions on encouraging multinational corporations to establish RHQs and functional organizations in Jiangsu (2024 Version) (hereinafter referred to as the “Jiangsu Opinions”).

According to the Jiangsu Opinions, qualifying RHQs and functional organizations will be applicable to multiple facilitation measures and incentives which include the following:

Trade facilitation measures

- ▶ Support qualified RHQs and functional organizations to carry out pilot tariff guarantee insurance.
- ▶ Qualified RHQs and functional organizations can be classified as Types I or II export tax refund or exemption enterprises.

Tax Services

- ▶ Foreign investors who distribute profits from RHQs and functional organizations for domestic direct investments may leverage tax preferences in accordance with the relevant national regulations.
- ▶ Qualified investors of RHQs and functional organizations may enjoy preferential tax treaty treatments in accordance with the law.
- ▶ Qualified RHQs and functional organizations are encouraged to negotiate with tax authorities on signing advance pricing arrangements or other forms of agreements to improve their tax certainty and resolve tax-related problems encountered.

Financial support

For the newly recognized RHQs and functional organizations of multinational corporations, operating subsidies of no more than RMB6 million and no more than RMB2 million will be granted respectively. The operating subsidies will be distributed at the ratio of 40%, 30% and 30% over three years.

In addition to the above, the Jiangsu Opinions also provide other facilitation measures for the RHQs and functional organizations, such as exit and entry of related persons, work permits and residence, children's education, cross-border settlement, investment and financing, and trade logistics.

Multinational corporations that consider setting up RHQs and functional organizations in Jiangsu are encouraged to read the Jiangsu Opinions for details and make appropriate planning to meet the relevant criteria as prescribed so as to fully leverage the facilitations offered. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full contents of the Jiangsu Opinions:

https://doc.jiangsu.gov.cn/art/2024/2/29/art_78712_11161639.html

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

- ▶ **Application Rules on the Discretion of Administrative Penalties in Drug Supervision and Administration (Guoyaojianfa [2024] No. 11)**
<https://www.nmpa.gov.cn/xxgk/fqwj/gzwj/gzwjzh/20240223150305195.html>
- ▶ **Notice regarding the "National Basic Catalog of Public Credit Information (2024 Version)" and the "National Basic List of Punishment Measures for Entities and Individuals Acting in Bad Faith (2024 Version)" (Fagaicaijingui [2024] No. 203)**
https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj/202402/t20240228_1364264.html
- ▶ **Law of the People's Republic of China on Guarding State Secrets (2024 Version) (Chairman order [2024] No. 20)**
http://www.npc.gov.cn/npc/c2/c30834/202402/t20240227_434859.html
- ▶ **Notice regarding certain matters related to the investment in interbank bonds through over-the-counter trades (Yinfa [2024] No. 45)**
<http://www.pbc.gov.cn/tiaofasi/144941/3581332/5255590/index.html>
- ▶ **PN regarding the decision on commodity classifications for year 2024 (I) (GAC PN [2024] No.23)**
<http://www.customs.gov.cn/customs/302249/302266/302267/5697264/index.html>

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