

# 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 certain policies for promoting the high-quality development of the integrated circuit (IC) industry and software industry in the new era (Guofa [2020] No. 8)**

### Synopsis

On 4 August 2020, the State Council published Guofa [2020] No. 8 ("Circular 8") on its official website to announce a series of policies regarding promoting the development of the IC industry and software industry. These policies include a series of incentives on various aspects including tax, investment, research and development, import and export, talent, intellectual properties, market, as well as international cooperation.

Among these, we summarized the tax preferential policies as prescribed in Circular 8 with comparisons to the previous tax rules promulgated before Circular 8 in the table below (please click circular no. of the respective circular for more details):

Tax preferential treatments	Tax policies in Circular 8	Similar tax policies prior to Circular 8
<b>Corporate Income Tax (CIT) treatments</b>		
<b>CIT preferences for IC manufacturing enterprises or projects</b>		
Ten-year CIT exemption for encouraged IC manufacturing enterprises or projects	Encouraged IC manufacturing enterprises or projects <sup>1</sup> producing products with IC line width equal to or less than 28nm with an operation period of 15 years or above can be granted with a ten-year CIT exemption <sup>2</sup> .	N/A
Five-year CIT exemption followed by a five-year 50% reduction of the statutory CIT rate (i.e., 25%) (hereinafter referred to as the “five plus five tax holiday”) for encouraged IC manufacturing enterprises or projects	Encouraged IC manufacturing enterprises or projects producing products with IC line width equal to or less than 65nm with an operation period of 15 years or above can be granted with the “five plus five tax holiday” <sup>2</sup> .	<p>The “five plus five tax holiday”<sup>3</sup> was available to:</p> <ul style="list-style-type: none"> <li>▶ IC manufacturing enterprises producing products with IC line width equal to or less than 0.25μm (or with an investment amount exceeding RMB8 billion) and an operation period of 15 years or above. (<a href="#">Guofa [2011] No. 4</a>)</li> <li>▶ IC manufacturing enterprises or projects producing products with IC line width equal to or less than 65nm (or with an investment amount exceeding RMB15 billion) and an operation period of 15 years or above. (<a href="#">Caishui [2018] No. 27</a>)</li> </ul>
Two-year CIT exemption followed by a three-year 50% reduction of the statutory CIT rate (hereinafter referred to as the “two plus three tax holiday”) for encouraged IC manufacturing enterprises or projects	Encouraged IC manufacturing enterprises or projects producing products with IC line width equal to or less than 130nm with an operation period of 10 years or above can be granted with the “two plus three tax holiday” <sup>2</sup> .	<p>The “two plus three tax holiday”<sup>4</sup> was available to:</p> <ul style="list-style-type: none"> <li>▶ IC manufacturing enterprises producing products with IC line width equal to or less than 0.8μm. (<a href="#">Guofa [2011] No. 4</a>)</li> <li>▶ New IC manufacturing enterprises or projects established on or after 1 January 2018 that produce products with IC line width less than 130nm with an operation period of not less than 10 years. (<a href="#">Caishui [2018] No. 27</a>)</li> </ul>
Reduced CIT rate of 15% for encouraged IC manufacturing enterprises or projects	N/A	Upon recognition, IC manufacturing enterprises producing products with IC line width equal to or less than 0.25μm or with total investment exceeding RMB8 billion, can apply a reduced CIT rate of 15%. Such IC manufacturing enterprises with an operating period of more than 15 years can be granted with a “five plus five tax holiday” from the first profit making year commencing prior to 31 December 2017. ( <a href="#">Caishui [2012] No. 27</a> )

Tax preferential treatments (cont'd)	Tax policies in Circular 8 (cont'd)	Similar tax policies prior to Circular 8 (cont'd)
Corporate Income Tax (CIT) treatments (cont'd)		
CIT preferences for IC manufacturing enterprises or projects (cont'd)		
Loss carried forward	Losses of encouraged IC manufacturing enterprises producing products with IC line width equal to or less than 130nm may be carried forward for a period of 10 years.	<ul style="list-style-type: none"><li>Under the general rules, losses of enterprises may be carried forward for a period of five years.</li><li>Losses of qualified High-and-New Technology Enterprises and Technology-based Small and Medium-sized Enterprises may be carried forward for a period of ten years. (<a href="#">Caishui [2018] No. 76</a>)</li></ul>
CIT preferences for qualified IC design and software enterprises		
"Two plus three tax holiday" for qualified IC design and software enterprises	Encouraged IC enterprises engaging in design, encapsulation, special-purpose materials, testing <sup>5</sup> and software enterprises are entitled to a "two plus three tax holiday" from their first profit making year.	<ul style="list-style-type: none"><li>Qualifying IC enterprises engaging in encapsulation, testing as well as manufacturing of key IC special-purpose materials and specialized equipment are entitled to a "two plus three tax holiday" from the first profit making year commencing no later than 2017. (<a href="#">Caishui [2015] No. 6</a>)</li><li>IC design enterprises and software enterprises that are legally established and meet the relevant criteria are entitled to a "two plus three" tax holiday starting from their first profit making year commencing prior to 31 December 2018. (<a href="#">MOF/STA PN [2019] No. 68</a>)</li></ul>
Five-year CIT exemption plus a reduced CIT rate of 10% for the years following for encouraged key IC design enterprises and software enterprises	Encouraged key IC design and software enterprises <sup>6</sup> can be granted with a five-year CIT exemption plus a reduced CIT rate of 10% for the years following.	Qualifying IC design enterprises and key software enterprises under the national plan can be granted with a reduced CIT rate of 10% if no CIT exemption applies in a particular year. ( <a href="#">Guofa [2000] No. 18</a> and <a href="#">Guofa [2011] No. 4</a> )
Value-added Tax (VAT) treatments – the prevailing VAT preferential treatments shall be continued		
Same time levy and rebate for VAT products	Sales of self-developed software products by general VAT taxpayers are subject to VAT at 13% and entitled to a refund of VAT paid in excess of an effective rate of 3%. ( <a href="#">Caishui [2011] No. 100</a> )	
VAT credit brought forward from the previous periods for purchase of equipment by IC enterprises	Key IC enterprises are entitled to a refund of their input VAT credit brought forward from the previous period for the purchase of equipment. ( <a href="#">Caishui [2011] No. 107</a> )	
Import-level VAT treatments		
Import-level VAT installment payment	Import-level VAT for the importation of equipment for key IC projects can be paid by installments, applicable period to be announced.	N/A

Tax preferential treatments (cont'd)	Tax policies in Circular 8 (cont'd)	Similar tax policies prior to Circular 8 (cont'd)
<b>Customs Duty exemption</b>		
Customs Duty exemption <sup>7</sup> with applicable period to be announced	<ul style="list-style-type: none"> <li>▶ Customs duty for the importation of raw materials, articles of consumables, parts, specific construction materials for clean room, etc. for self-use by qualifying logic circuit or storage manufacturing enterprises that produce products with line width equal to or less than 65nm and qualifying IC manufacturing enterprises that produce products with line width equal to or less than 0.25μm shall be exempt.</li> <li>▶ Customs duty for the importation of raw materials and articles of consumables for self-use by qualifying IC manufacturing enterprises that produce products with line width equal to or less than 0.5μm and advanced assembly and testing technology enterprises shall be exempt.</li> <li>▶ Customs duty for the importation of equipment together with related technology (including software), parts and auxiliary equipment, as well as spare parts (except for those that are not applicable for Custom Duty exemption) to be used by encouraged key IC design enterprises and software enterprises as well as the abovementioned qualifying IC manufacturing enterprises and advanced assembly and testing technology enterprises shall be exempt.</li> </ul>	

The criteria and applicable scope for the CIT preferential policies for IC enterprises/projects and software enterprises shall be subject to a dynamic adjustment according to development of the sector.

It is anticipated that the relevant tax preferential policies shall be further elaborated by the Ministry of Finance and State Taxation Administration (STA). Relevant businesses should stay tuned for the tax circulars to be released and pay attention to the timeline of implementation and effectiveness. We have issued a WeChat news article on 7 August 2020 (in Chinese only) regarding Circular 8, you can follow us on WeChat by scanning the QR Code on the last page of this CTIE and search key words to access the full contents of the WeChat news article.

<sup>1</sup> List of the encouraged IC manufacturing enterprises or projects is to be stipulated by the National Development and Reform Commission (NDRC), the Ministry of Industry of Technology (MIIT) and other relevant government authorities.

<sup>2</sup> For encouraged IC manufacturing enterprises, the tax holidays are from their first profit making year; while for encouraged IC manufacturing projects, the tax holiday is from their first operating revenue generating year.

<sup>3</sup> The “five plus five tax holiday” is starting from qualifying IC manufacturing enterprises’ first profit making year.

<sup>4</sup> For qualifying IC manufacturing enterprises, the “two plus three tax holiday” is from their first profit making year; while for qualifying IC manufacturing projects, the tax holiday is from their first operating revenue generating year.

<sup>5</sup> List of the encouraged IC enterprises engaging in design, encapsulation, special-purpose materials, testing is to be stipulated by the MIIT and other relevant government authorities.

<sup>6</sup> List of the encouraged key IC design and software enterprises is to be stipulated by the NDRC, MIIT and other relevant government authorities.

<sup>7</sup> List of enterprises and tax-exempt commodities shall be jointly stipulated by the NDRC, MIIT and other relevant government authorities.

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

[http://www.gov.cn/zhengce/content/2020-08/04/content\\_5532370.htm](http://www.gov.cn/zhengce/content/2020-08/04/content_5532370.htm)



► **Notice regarding certain tax-related measures for further supporting and serving the integrated development of the Yangtze River Delta Region (Shuizonghan [2020] No. 138)**

**Synopsis**

In order to promote the integrated development of the Yangtze River Delta Region (YRDR) and to optimize the role of taxation in serving the country's major development strategies, on 31 July 2020, the STA released Shuizonghan [2020] No. 138 ("Circular 138") to introduce ten measures for tax collection and administration and supporting the integrated and high-quality development of the YRDR.

The ten measures are as follows:

- Enhance the capability of big data in tax services, promote tax data sharing and strengthen the joint analysis of taxation economy in the YRDR.
- Deepen the application of electronic VAT invoices.
- Implement the "five in one" comprehensive tax declaration, i.e., Urban Land Use Tax, Real Estate Tax, Stamp Duty (except for one-time declaration), Land Appreciation Tax (LAT) and CIT can be reported on a consolidated basis.
- Explore and advance pre-filling service for tax declaration.
- Simplify the handling process for "same time levy and refund" of VAT.
- Accelerate the processing of LAT exemption.
- Facilitate foreign exchange payments of service trades.
- Carry out overall taxation risk management in the YRDR.
- Promote the unified implementation of tax policies in the YRDR.
- Build a unified tax enforcement checklist system in the YRDR.

Relevant enterprises in the YRDR are advised to read Circular 138 carefully so as 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 Circular 138:

<http://www.chinatax.gov.cn/chinatax/n810341/n810755/c5155171/content.html>

► **Notice regarding four practical guidelines for professional tax agents (Zhongshuixiefu [2020] No. 35)**

**Synopsis**

On 30 July 2020, the China Certified Tax Agents Association released Zhongshuixiefu [2020] No. 35 ("Circular 35") to launch four practical guidelines, i.e., the Trial Guidelines for Tax Planning for Enterprise Restructuring, Trial Guidelines for Tax Consultancy on Outbound Investments, Trial Guidelines for Tax Risk Evaluation on Real Estate Enterprises, as well as Trial Guidelines for Attesting Services on Super Deduction for Research and Development Expenses in the Financial Industry.

Although Circular 35 aims to provide Guidelines for tax practitioners for their engagements, they can also be good references for taxpayers to better understand the issues to be considered in their proposed restructuring, investments and daily operations, etc., when tax authorities review similar cases. For instance, in Section Three of Chapter Three of the Trial Guidelines for Tax Planning for Enterprise Restructuring, the key issues to be considered in the tax planning for each form of restructuring are listed out. Instead of going through a series of relevant tax circulars in this regard, taxpayers may take a quick look on Circular 35 to grasp the key considerations.

Concerned taxpayers are encouraged to read Circular 35 for more details.

You can click this link to access the full content of Circular 35:

<http://www.cctaa.cn/zczd/zxwj/2020-07-31/CCON20900000027140.html>

### ► **Notice regarding the public opinion consultation on the “Catalogue of Encouraged Industries for Foreign Investment (2020 Version) (Discussion Draft)”**

#### **Synopsis**

On 31 July 2020, the NDRC and Ministry of Commerce (MOFCOM) jointly released a notice regarding the public opinions consultation on the “Catalogue of Encouraged Industries for Foreign Investment (2020 Version) (Discussion Draft)” (hereinafter referred to as the “2020 Catalogue” or “Discussion Draft”) to seek public opinions, aiming to further expand the scope of encouraged industries and enable foreign investment in more sectors to enjoy preferential tax policies.

Compared with the catalogue issued in 2019 (“2019 Catalogue”), key changes and revisions in the 2020 Catalogue are as follows:

#### **Key changes**

The general principle of the revision is to increase items. Compared with the 2019 Catalogue, 125 items are added and 76 items are revised in the 2020 Catalogue (the scope of the items in 2019 is expanded), among which, 56 items are added and 40 items are revised in the National Catalogue of Encouraged Industries for Foreign Investment (“National Catalogue”); 69 items are added and 36 items are revised in the Catalogue of Foreign Investment Advantageous Industries for Foreign Investment in the Central and Western Regions (“Catalogue of Central and Western Regions”). (Please refer to CTIE2019026 for details of the 2019 Catalogue.)

#### **Key revisions**

- Further encourage foreign investment to participate in the high-quality development of manufacturing sectors. Items such as raw materials, parts and components, terminal product manufacturing, etc. are added or expanded in the National Catalogue.
- Further encourage foreign investment to participate in manufacturer services sectors. Items such as research and development design, business services, modern logistics, and information services, etc. are added or expanded in the National Catalogue.
- Further encourage foreign investment to participate in the central and western regions. Relevant items are added or expanded in the Catalogue of Central and Western Regions to meet the needs of further opening-up and attracting investment in many regions. Some items related to exhibition, logistics, and e-commerce in the Catalogue of Central and Western Regions are moved to the National Catalogue.

Relevant foreign investors are encouraged to express opinions or suggestions on or before 30 August 2020 by logging onto the official websites of the NDRC ([www.ndrc.gov.cn](http://www.ndrc.gov.cn)) or the MOFCOM (<http://www.mofcom.gov.cn>).

You can click this link to access the full content of the Discussion Draft:  
<http://www.mofcom.gov.cn/article/au/av/ab/202007/20200702988205.shtml>

You can click this link to access the full content of the 2019 Catalogue:  
[https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/201906/t20190628\\_960876.html](https://www.ndrc.gov.cn/xxgk/zcfb/fzggwl/201906/t20190628_960876.html)

### ► **Notice regarding further optimizing services for the establishment of enterprises (Guoshijianzhu [2020] No. 129)**

#### **Synopsis**

To establish a market-oriented, legalized, international business environment, on 4 August 2020, the Ministry of Public Security, NDRC, State Administration for Market Regulation, STA, Ministry of Human Resources and Social Security and Ministry of Housing and Urban-Rural Development jointly released Guoshijianzhu [2020] No. 129 (“Circular 129”) regarding further optimizing services for the establishment of enterprises.

Key features of Circular 129 are as follows:

**Implementing the online handling for the full process of enterprises' establishment**

- ▶ Promoting the one-stop online service for enterprises' establishment.
- ▶ Further deepening the online and offline integrated service.
- ▶ Continuously optimizing the ability of the one-stop online service.

**Further reducing the time, procedures and cost for enterprises' establishment**

- ▶ By the end of 2020, the time required for establishing enterprises shall be reduced to four working days.
- ▶ The process of enterprises' establishment shall be further simplified.
- ▶ The cost of enterprises' establishment shall be further reduced.

**Promoting the application of electronic business license, electronic invoice and electronic stamp**

- ▶ The application of electronic business license shall be promoted by utilizing the national integrated platform of governmental service.
- ▶ The electronic normal VAT invoice shall be promoted while the electronic special VAT invoice shall be advanced.
- ▶ The application of the electronic stamp shall be promoted.

Relevant enterprises or individuals are encouraged to read Circular 129 for more details.

You can click this link to access the full content of Circular 129:

[http://gkml.samr.gov.cn/nsjg/djzcj/202008/t20200807\\_320600.html](http://gkml.samr.gov.cn/nsjg/djzcj/202008/t20200807_320600.html)

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

- ▶ **Notice regarding matters related to the application for the pilot program of real estate investment trusts (REITs) in the infrastructure sector (Fagaibantouzi [2020] No. 586)**  
[https://www.ndrc.gov.cn/xxgk/zcfb/tz//202008/t20200803\\_1235506.html](https://www.ndrc.gov.cn/xxgk/zcfb/tz//202008/t20200803_1235506.html)
- ▶ **Public notice regarding "The List of Nationwide Market Supervision Departments Authorized for the Administration of Foreign-invested Enterprises' Registration" (SAMR PN [2020]No. 37)**  
[http://gkml.samr.gov.cn/nsjg/djzcj/202008/t20200806\\_320557.html](http://gkml.samr.gov.cn/nsjg/djzcj/202008/t20200806_320557.html)
- ▶ **Guiding opinions on promoting the construction of new infrastructure in the transportation sector (Jiaoguihuafa [2020] No. 75)**  
[https://www.ndrc.gov.cn/xxgk/zcfb/tz/202007/t20200724\\_1234493.html](https://www.ndrc.gov.cn/xxgk/zcfb/tz/202007/t20200724_1234493.html)
- ▶ **Notice regarding the public opinion consultation on the "Opinions on Enhancing the Protection of Rights Related to Copyright (Discussion Draft)"**  
<http://www.court.gov.cn/zixun-xiangqing-246041.html>

## Contact us

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

### Author - China Tax Center

Jane Hui  
+852 2629 3836  
jane.hui@hk.ey.com

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### Greater China Tax Leader

Henry Chan  
+86 10 5815 3397  
henry.chan@cn.ey.com

### Our tax leaders by market segment and service areas

#### Martin Ngai (China North)

+86 10 5815 3231  
martin.ngai@cn.ey.com

#### Patricia Xia (China Central)

+86 21 2228 2878  
patricia.xia@cn.ey.com

#### Clement Yuen (China South)

+86 755 2502 8280  
clement.yuen@cn.ey.com

#### David Chan (Hong Kong SAR/Macau SAR)

+852 2629 3228  
david.chan@hk.ey.com

#### Heidi Liu (Taiwan)

+886 2 2757 8888  
heidi.liu@tw.ey.com

#### Carrie Tang

Business Tax Services  
+86 21 2228 2116  
carrie.tang@cn.ey.com

#### Vickie Tan

Global Compliance and Reporting  
+86 21 2228 2648  
vickie.tan@cn.ey.com

#### Becky Lai

Tax Policy  
+852 2629 3188  
becky.lai@hk.ey.com

#### Andrew Choy

International Tax and Transaction Services  
+86 10 5815 3230  
andrew.choy@cn.ey.com

#### Travis Qiu

ITTS - Transfer Pricing  
+86 21 2228 2941  
travis.qiu@cn.ey.com

#### Jesse Lv

ITTS - Transaction Tax  
+86 21 2228 2798  
jesse.lv@cn.ey.com

#### Kenneth Leung

Indirect Tax  
+86 10 5815 3808  
kenneth.leung@cn.ey.com

#### Bryan Tang

Indirect Tax - Global Trade  
+86 21 2228 2294  
bryan.tang@cn.ey.com

#### Patricia Xia

Tax Technology  
and Transformation  
+86 21 2228 2878  
patricia.xia@cn.ey.com

#### Paul Wen

People Advisory Services  
+852 2629 3876  
paul.wen@hk.ey.com



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