

# 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 circular

### ► Notice regarding Value-added Tax (VAT) policies for international cargo vessels in Hainan Free Trade Port (FTP)

#### Synopsis

According to the Overall Plan for the Construction of Hainan FTP (hereinafter referred to as the "Plan"), the Ministry of Finance (MOF), State Taxation Administration (STA) and Ministry of Transport jointly released the Notice regarding VAT policies for international cargo vessels in Hainan FTP (hereinafter referred to as the "Notice") on 3 September 2020. (Please refer to CTIE2020022 for details of the Plan.)

According to the Notice, from 1 October 2020 to 31 December 2024, sales of vessels by domestic vessel manufacturing enterprises to transportation enterprises shall be granted with a VAT refund provided that the vessels are registered in "Yangpu Port, China" and are to engage in international (including Hong Kong, Macau and Taiwan) transportation services.

The transportation enterprises that purchased the vessels shall lodge applications for tax refunds with their supervising tax authorities. However, in case a transportation enterprise becomes not qualified for a VAT refund, the refunded VAT shall be repaid in the following month of its tax filing according to the formula below:

Refunded VAT to be repaid = VAT indicated on the special VAT invoices of the vessel x [(Original value - Accumulated depreciation) ÷ Original value]

It is specified in the Notice that if VAT paid by a transportation enterprise for purchasing the vessels has been credited against output VAT, it should not apply for the tax refund; if the tax refund has been applied for, relevant input VAT should not be used to credit against output tax. However, for the above-mentioned VAT repaid case, after VAT is repaid, such repaid VAT would become creditable again.

According to the Notice, the STA shall further specify the relevant matters in administrative measures. Please stay tuned.

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

[http://www.hnftp.gov.cn/zcfg/zcwj/bwzc/202009/t20200921\\_3292327.html](http://www.hnftp.gov.cn/zcfg/zcwj/bwzc/202009/t20200921_3292327.html)

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

[http://www.gov.cn/zhengce/2020-06/01/content\\_5516608.htm](http://www.gov.cn/zhengce/2020-06/01/content_5516608.htm)

## Business circulars

### ► **Notice regarding the overall plans for the pilot free trade zones (PFTZs) in Beijing, Hunan and Anhui and the plan for the expanded area of the Zhejiang PFTZ (Guofa [2020] No. 10)**

#### **Synopsis**

On 30 August 2020, the State Council released the overall plans for the PFTZs in Beijing, Hunan and Anhui and the plan for expanding Zhejiang PFTZ (hereinafter referred to as the "Plans") via Guofa [2020] No. 10.

Key features of the four Plans are as follows:

#### **Overall Plan for the China (Beijing) PFTZ ("Beijing PFTZ")**

##### Development goals

The Beijing PFTZ will strive to build a high-standard and high-quality free trade zone for providing facilitation of trade and investment, excellent business environment, first-class innovation environment, high-end industry clusters, and sound financial services, and will also strengthen the linkage between PFTZ reform and the reform in Beijing through three to five years of reform and exploration.

##### Areas and functions

The Beijing PFTZ will consist of three areas, including a science and technology innovation area, an international business service area and a high-end industries area.

##### Key tasks and measures

- Promote the liberalization and facilitation of investment and trade.
- Deepen opening-up and innovation in the financial sector.
- Promote innovation-driven development.
- Innovate the development environment of digital economy.
- Develop competitive industries with high quality.
- Explore new paths for collaborative development of the Beijing-Tianjin-Hebei Region.
- Accelerate transformation of government functions.

## Overall Plan for the China (Hunan) PFTZ (“Hunan PFTZ”)

### Development goals

The Hunan PFTZ will accumulate practical experience for further opening-up, promoting high-quality development of advanced manufacturing, enhancing innovation capacity and level in key areas, and developing new paths and mechanisms for the economic and trade cooperation between China and Africa.

### Areas and functions

The Hunan PFTZ will consist of three areas, including the Changsha area (focusing on high-end equipment manufacturing, biomedicine, agricultural technology, etc.), the Yueyang area (focusing on shipping logistics, e-commerce, new-generation information technologies, etc.) and the Chenzhou area (focusing on nonferrous metal processing, modern logistics, etc.).

### Key tasks and measures

- ▶ Accelerate transformation of government functions.
- ▶ Deepen reform in investment areas.
- ▶ Promote high-quality development of trade.
- ▶ Deepen opening-up and innovation in the financial sector.
- ▶ Build an international investment and trade corridor linking the Yangtze River Economic Belt and the Guangdong-Hong Kong-Macao Greater Bay Area.
- ▶ Explore new paths and mechanisms for the economic and trade cooperation between China and Africa.
- ▶ Support the high-quality development of advanced manufacturing.

## Overall Plan for the China (Anhui) PFTZ (“Anhui PFTZ”)

### Development goals

The Anhui PFTZ will strive to build a high-standard and high-quality free trade zone for trade and investment, innovation dynamic, high-end industry clusters, sound financial services and safe and efficient supervision through three to five years of reform and exploration.

### Areas and functions

The Anhui PFTZ will consist of three areas, including the Hefei area (focusing on high-end equipment manufacturing, integrated circuits, artificial intelligence, etc.), the Wuhu area (focusing on intelligent vehicles, smart home appliances, aviation, robotics, etc.), and the Bengbu area (focusing on silicon-based new materials, biological-based new materials, new energy, etc.).

### Key tasks and measures

- ▶ Accelerate transformation of government functions.
- ▶ Deepen reform in investment areas.
- ▶ Promote high-quality development of trade.
- ▶ Deepen opening-up and innovation in the financial sector.
- ▶ Promote innovation-driven development.
- ▶ Promote industrial optimization and upgrading.
- ▶ Actively serve major national strategies.

## Plan for Expanding the Zhejiang PFTZ

### Development goals

By 2025, the Zhejiang PFTZ would establish an institutional system with liberalization and facilitation of investment and trade as the core and the business environment and convenience will become among the best in China. By 2035, its investment and trade liberalization will be improved to a higher level, and a new-type of international trade center will be fully established.

### Areas and functions

The expansion area of the Zhejiang PFTZ will consist of three areas, including the Ningbo area (focusing on shipping, supply chain, new materials, etc.), the Hangzhou area (focusing on artificial intelligence, fintech, cross-border e-commerce, etc.), and the Jinyi area (focusing on small commodities, digital trade, logistics, etc.).

### Key tasks and measures

- ▶ Establish an institutional system with liberalization and facilitation of investment and trade as the core.
- ▶ Build a modern and open economic system with high quality.
- ▶ Build a safe and efficient risk prevention and control system.

We have issued a WeChat news article (in Chinese) to discuss the above four Plans in greater detail on 27 September 2020. For the WeChat news article, 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.

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

[http://www.gov.cn/zhengqce/content/2020-09/21/content\\_5544926.htm](http://www.gov.cn/zhengqce/content/2020-09/21/content_5544926.htm)

- ▶ **Notice regarding public opinion consultation on the “Notice issued by the People’s Bank of China (PBOC), National Development and Reform Commission (NDRC), Ministry of Commerce (MOFCOM), State Owned Assets Supervision and Administration Commission of the State Council (SASAC), China Banking and Insurance Regulatory Commission (CBIRC) and State Administration of Foreign Exchange (SAFE) regarding policies for further optimizing the Cross-border Use of RMB and supporting the steady development of foreign trade and foreign investment (Discussion Draft)”**

### **Synopsis**

On 18 September 2020, the PBOC, NDRC, MOFCOM, SASAC, CBIRC and SAFE jointly announced the “Policies for further optimizing the Cross-border Use of RMB and supporting the steady development of foreign trade and foreign investment (Discussion Draft)” (hereinafter referred to as the “Discussion Draft”) on the official website of PBOC to seek public opinion.

Key features of the Discussion Draft include the following:

#### **A pilot to promote high level trade and investment facilitation on a nationwide basis**

Under the pilot, the domestic banks shall process the settlement or receipt/payment order for the following businesses of quality enterprises based on the principles of “know your client, know your customer’s business, and customer due diligence”:

- ▶ Cross-border RMB settlement for commodity trade or service trade business of quality enterprises (except for entrepot trade or refund);
- ▶ Legitimate use of RMB derived from capital accounts within China (including funds of direct foreign investments, cross-border financing or funds raised by a domestic company through overseas listing, etc.).



## Settlement of cross-border RMB related to new models and new forms of trade

- ▶ The domestic banks shall provide settlement service for businesses engaging in cross-border e-commerce based on electronic transaction information on the ground that sufficient transaction information have been collected and its authenticity have been verified.
- ▶ The domestic banks as well as non-banking payment institutions shall provide receipt/payment services for cross-border e-commerce, market procurement trade and comprehensive services for foreign trade.

## Further simplify the settlement process for cross-border RMB

- ▶ A mechanism of enterprise lists for key supervision cross-border RMB businesses shall be formulated by the PBOC together with other relevant government authorities to support the development of foreign trade enterprises.
- ▶ The domestic banks shall further simplify the process of cross-border RMB settlements by performing review on electronic vouchers and documentations.
- ▶ The centralized cross-border RMB fund operation conducted by multinational enterprise groups shall be further optimized.
- ▶ A pilot for facilitation of cross-border RMB settlement for quality enterprises engaging in overseas contracting engineering businesses shall be implemented on a nationwide basis.

## Further optimize the cross-border RMB financing and investment management

- ▶ Expand the limitation of RMB usage under certain capital accounts to ensure foreign investment enterprises capability to fulfill reasonable liquidity needs.
- ▶ Remove the limitation of re-investment of RMB funds within China by foreign investment enterprises without investment company status.
- ▶ Remove certain administrative requirements for special accounts related to foreign investments and facilitate the processes for re-investment, equity transfer and cross-border merger, etc.
- ▶ Optimize the administration of foreign loan to domestic enterprises by relaxing the limitation of the number of foreign loan accounts to be opened, as well as removing limitation on withdrawing/repaying the loan with the same type of currency stipulated in the loan agreement.
- ▶ Simplify the administration of overseas lending by domestic enterprises and adjust the conversion factor to 0.5, i.e., Balance of overseas lending by an enterprise =  $\sum \text{Overseas lending balance in both RMB and foreign currency (本外币境外放款余额)} + \sum \text{Overseas lending balance in foreign currency (外币境外放款余额)} \times 0.5$ . This adjustment is in accordance with that of Yinfa [2017] No. 9 ("Circular 9", i.e., Notice regarding the macroprudential assessment framework for cross-border financing).

In addition, the Discussion Draft also stipulated measures regarding the facilitation of RMB cross-border receipt and payment by individuals as well as the use of RMB settlement account of overseas institutions.

Concerned businesses should read the Discussion Draft and are encouraged to express opinions on or before 2 October 2020 by sending faxes/emails or emails to [RMB@pbc.gov.cn](mailto:RMB@pbc.gov.cn).

We have issued a WeChat news article on 27 September 2020 (in Chinese only) regarding the Discussion Draft, you can follow us on WeChat by scanning the QR Code on the last page of this CTIE and search key words to assess the full contents of the WeChat news article.

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

<http://www.pbc.gov.cn/tiaofasi/144941/144979/3941920/4099081/index.html>

You can click this link to access the full content of Circular 9:

<http://www.pbc.gov.cn/zhengwugongkai/127924/128038/128109/3241310/index.html>

## ► Provisions on the Unreliable Entity List (MOFCOM [2020] No. 4)

### Synopsis

To maintain the fair and liberal international economic and trade order, on 19 September 2020, the MOFCOM released the “Provisions on the Unreliable Entity List” (hereinafter referred to as the “Provisions”) via MOFCOM Order [2020] No. 4.

The Provisions include 14 articles in total with following key points:

### Unreliable Entity List System

The State shall establish the Unreliable Entity List System, adopt measures in response to the following actions taken by a foreign entity in international economic, trade and other relevant activities:

- endangering national sovereignty, security or development interests of China;
- suspending normal transactions with an enterprise, other organization, or individual of China or applying discriminatory measures against an enterprise, other organization, or individual of China, which violates normal market transaction principles and causes serious damage to the legitimate rights and interests of the enterprise, other organization, or individual of China.

### Working mechanism

- The State shall establish a working mechanism composed of relevant central departments (hereinafter referred to as “the working mechanism”) to take charge of organization and implementation of the Unreliable Entity List System.
- The working mechanism shall, according to the results of the investigation and by taking into overall consideration the following factors, make a decision on whether to include the relevant foreign entity in the Unreliable Entity List, and make an announcement of the decision:
  - the degree of danger to national sovereignty, security or development interests of China;
  - the degree of damage to the legitimate rights and interests of enterprises, other organizations, or individuals of China;
  - whether being in compliance with internationally accepted economic and trade rules;
  - other factors that shall be considered.

### Measures for foreign entity included in the Unreliable Entity List

The working mechanism may, based on actual circumstances, decide to take one or several of the following measures with respect to the foreign entity, which is included in the Unreliable Entity List, and make an announcement of the decision:

- restricting or prohibiting the foreign entity from engaging in China-related import or export activities;
- restricting or prohibiting the foreign entity from investing in China;
- restricting or prohibiting the foreign entity’s relevant personnel or means of transportation from entering China;
- restricting or revoking the relevant personnel’s work permit, status of stay or residence in China;
- imposing a fine of the corresponding amount according to the severity of the circumstances;
- other necessary measures.

The Provisions also clarified the regulations on the investigations, period for rectifications as well as the definition for foreign entity, etc. Provisions shall become effective on its promulgation date, i.e., 19 September 2020. Relevant parties are encouraged to read Provisions for more details.

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

<http://www.mofcom.gov.cn/article/b/fwzl/202009/20200903002593.shtml>

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

- ▶ **Notice regarding the pilot run of new systems for export tax refunding in Guangdong and Dalian (Shuizonghan [2020] No. 172)**  
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5156814/content.html>
- ▶ **Public notice (PN) regarding several catalogs for vehicle-related preferential treatments including the “Catalog of Energy Saving & New Energy Vehicles Eligible for Preferential Vehicle and Vessel Tax Policies (19th Batch)”, “Catalog of New Energy Vehicles Eligible for Vehicle Purchase Tax Exemption (35th Batch)”, etc. (MIIT PN [2020] No. 38)**  
<http://www.miit.gov.cn/n1146295/n1652858/n1652930/n4509607/c8094091/content.html>
- ▶ **Anti-Monopoly Compliance Guidance for Undertakings (Guofanlongfa [2020] No. 1)**  
[http://gkml.samr.gov.cn/nsjg/fldj/202009/t20200918\\_321796.html](http://gkml.samr.gov.cn/nsjg/fldj/202009/t20200918_321796.html)
- ▶ **Implementation measures of the PBOC on the protection of financial consumers' rights and interests (PBOC Order [2020] No. 5)**  
<http://www.pbc.gov.cn/tiaofasi/144941/144957/4099060/index.html>
- ▶ **Decision on revising the “Regulations on Enhancing the Supervision of Listed Securities Companies” (CSRC PN [2020] No. 62)**  
[http://www.csrc.gov.cn/pub/zjhpublic/zjh/202009/t20200918\\_383326.htm](http://www.csrc.gov.cn/pub/zjhpublic/zjh/202009/t20200918_383326.htm)
- ▶ **Administrative measures for elderly care institutions (MCA Order [2020] No. 66)**  
[http://www.gov.cn/zhengce/zhengceku/2020-09/19/content\\_5544761.htm](http://www.gov.cn/zhengce/zhengceku/2020-09/19/content_5544761.htm)
- ▶ **PN regarding deepening the reform and opening-up, adjusting and implementing relevant regulations in the China (Hainan) PFTZ (Jiaofagui [2020] No. 11)**  
[http://xxgk.mot.gov.cn/2020/jigou/fgs/202009/t20200918\\_3467383.html](http://xxgk.mot.gov.cn/2020/jigou/fgs/202009/t20200918_3467383.html)
- ▶ **PN regarding public opinion consultation on the “Overseas Anti-Monopoly Compliance Guidance for Enterprises (Discussion Draft)”**  
[http://www.samr.gov.cn/hd/zjdc/202009/t20200918\\_321797.html](http://www.samr.gov.cn/hd/zjdc/202009/t20200918_321797.html)
- ▶ **PN regarding public opinion consultation on the “Opinions on Improving the Bankruptcy System of Enterprises and Ensuring the Administrator to Perform Duties in Accordance with Law to Further Optimize the Business Environment (Discussion Draft)”**  
[https://www.ndrc.gov.cn/hdjl/yjqz/202009/t20200918\\_1239103.html](https://www.ndrc.gov.cn/hdjl/yjqz/202009/t20200918_1239103.html)
- ▶ **Opinions on accelerating the development of new consumption through new business models (Guobanfa [2020] No. 32)**  
[http://www.gov.cn/zhengce/content/2020-09/21/content\\_5545394.htm](http://www.gov.cn/zhengce/content/2020-09/21/content_5545394.htm)
- ▶ **Notice regarding the procedural guidance on pre- and post-guarantee management of financing credit guarantee business (Yinbaojianbanfa [2020] No. 90)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=930235&itemId=924&generaltype=1>
- ▶ **Notice regarding public opinion consultation on the “Administrative Regulations on Funds Used by Foreign Institutional Investors for Investing in China's Domestic Bond Market (Discussion Draft)”**  
<http://www.safe.gov.cn/safe/2020/0921/17122.html>
- ▶ **Opinions on regulating the development of supply chain finance and supporting the stable circulation, optimization and upgrading of supply chain and industry chain (Yinfa [2020] No. 226)**  
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4101190/index.html>

- ▶ **Guiding opinions on expanding the investments in strategic emerging industries, cultivating and expanding new areas of growth (Fagaigaoji [2020] No. 1409)**  
[https://www.ndrc.gov.cn/xwdt/tzgg/202009/t20200925\\_1239583.html](https://www.ndrc.gov.cn/xwdt/tzgg/202009/t20200925_1239583.html)
  
- ▶ **Guiding opinions on accelerating the innovative development of medical education (Guobanfa [2020] No. 34)**  
[http://www.gov.cn/zhengce/content/2020-09/23/content\\_5546373.htm](http://www.gov.cn/zhengce/content/2020-09/23/content_5546373.htm)
  
- ▶ **Notice regarding the “Overall Plan for Building the Reform and Innovation Pilot Zone for Providing Financial Support and Deepening Cross-Strait Industrial Cooperation in Kunshan, Jiangsu Province” (Yinfa [2020] No. 184)**  
<http://www.pbc.gov.cn/zhengwugongkai/127924/128038/128109/4101919/index.html>
  
- ▶ **Measures of the State Administration of Foreign Exchange on Administrative Punishment (SAFE PN [2020] No. 1)**  
<http://www.safe.gov.cn/safe/2020/0923/17183.html>
  
- ▶ **Notice regarding the “List of Market Supervision and Law Enforcement Matters Subject to Random Inspection and Public Release Issued by the Ministry of Commerce (Second Edition)” (Shangbanjianhan [2020] No. 294)**  
<http://swt.gxzf.gov.cn/zwgk/zcyjd/gjzc/t6395467.shtml>
  
- ▶ **PN regarding the approval for entry of foreigners holding certain valid residence permits of three categories**  
[https://www.fmprc.gov.cn/web/wjdt\\_674879/sjxw\\_674887/t1817369.shtml](https://www.fmprc.gov.cn/web/wjdt_674879/sjxw_674887/t1817369.shtml)
  
- ▶ **PN regarding statistical measures of the Yangpu Bonded Port Area (GAC PN [2020] No. 109)**  
<http://www.customs.gov.cn/customs/302249/2480148/3294851/index.html>
  
- ▶ **PN regarding adjusting the supervision and administration method for inspection of imported crude oil (GAC PN [2020] No. 110)**  
<http://www.customs.gov.cn/customs/302249/2480148/3295467/index.html>





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