

# 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.

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## Tax circulars

- ▶ **Notice issued by the Finance Bureau of Hainan Province, Hainan Provincial Tax Service, State Taxation Administration, Administration for Market Supervision of Hainan Province and Talent Development Bureau of Communist Party of China, Hainan Provincial Committee regarding matters related to the implementation of preferential Individual Income Tax (IIT) policies for high-end talents in Hainan Free Trade Port (FTP) (Qiongcaishui [2020] No. 1019)**

## Synopsis

According to Caishui [2020] No. 32 ("Circular 32") regarding the exemption of IIT burden exceeding 15% for high-end or urgently needed talents who work in Hainan FTP from 1 January 2020 to 31 December 2024 and the measures on the list of high-end talents and urgently needed talents released via Qiongfu [2020] No. 41 ("Circular 41"), the relevant local government authorities in Hainan jointly released Qiongcaishui [2020] No. 1019 ("Circular 1019") on 18 December 2020 to further specify the relevant matters:

## Detailed scope of eligible income

According to Circular 32, the IIT exemption shall apply to the eligible individual's consolidated income (i.e., the sum of salaries and wages, remuneration for personal services, authors' remuneration and royalties) that are derived from the Hainan FTP as well as operating income and any talent related subsidy income recognized by the Hainan government authorities. In this respect, Circular 1019 further elaborates on the definition of Hainan-sourced income on each category of income.

Subsidy income recognized by the Hainan government authorities for eligible individuals should be determined by whether it should be combined in consolidated income or operating income based on its nature, i.e., whether the subsidy is related to individual's employment in Hainan or the individual's business operation in Hainan.

### Calculation of the IIT exemption

To eliminate the effect of non-Hainan sourced income derived by eligible individuals, Circular 1019 provides the following formulas for the calculation of IIT exemption:

For an eligible tax resident	For an eligible non-tax resident
<b><u>Consolidated income</u></b>  IIT exemption = (IIT payable of taxable consolidated income - Taxable consolidated income x 15%) x Total consolidated income sourced from Hainan ÷ Total consolidated income	<b><u>Salaries/wages</u></b>  IIT exemption for salaries and wages= (IIT payable of taxable salaries/wages - Taxable salaries/wages x 15%) x Total salaries/wages sourced from Hainan ÷ Total salaries/wages  <b><u>Remuneration for personal services/authors' remuneration/royalties</u></b>  IIT exemption for remuneration for personal services/authors' remuneration/royalties = IIT payable in Hainan - Taxable income sourced from Hainan X 15%
<b><u>Operating income</u></b>  IIT exemption = (IIT payable of taxable operating income - Taxable operating income x 15%) x Total taxable operating income sourced from Hainan ÷ Total taxable operating income	

### Application for IIT refund

Circular 1019 specifies the timing for the application for IIT refund:

- ▶ For eligible resident IIT payers that receive Hainan-sourced consolidated income, they should apply for IIT refund during the annual IIT filing, i.e., from 1 March to 30 June of the following year, while for those who receive Hainan-sourced operating income, they should apply for IIT refund from 1 January to 31 March of the following year.
- ▶ Non-resident IIT payers may apply for recognition of their status as eligible individuals by themselves or through agents for the IIT refund.

Circular 1019 also specifies the process for the selection of high-end talents and urgently needed talents by the relevant government authorities and their responsibilities, as well as the measures for dispute settlement, etc.

Both the individuals and their employers are encouraged to read Circulars 1019, Circulars 32 and 41 and assess whether the IIT exemption is applicable. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 1019:

[http://hnftp.gov.cn/zcfg/zcwj/hnzc/202012/t20201218\\_3309171.html](http://hnftp.gov.cn/zcfg/zcwj/hnzc/202012/t20201218_3309171.html)

You can click this link to access the full content of Circular 41:

<http://www.hainan.gov.cn/hainan/szfwj/202008/6bed34c38df74affa929c4f78292fc9c.shtml>

You can click this link to access the full content of Circular 32:

[http://szs.mof.gov.cn/zhengcefabu/202006/t20200630\\_3540853.htm](http://szs.mof.gov.cn/zhengcefabu/202006/t20200630_3540853.htm)

► **Public notice (PN) regarding certain issues related to implementing electronic special Value-added Tax (VAT) invoices for new taxpayers (STA PN [2020] No. 22)**

**Synopsis**

To promote the utilization of electronic special VAT invoices, on 21 December 2020, the State Taxation Administration (STA) released STA PN [2020] No. 22 ("PN 22") to clarify certain issues related to expanding the scope of electronic special VAT invoices for the newly registered taxpayers (hereinafter referred to as the "new taxpayers").

Key features of PN 22 are as follows:

- From 21 December 2020, the electronic special VAT invoices should be implemented in 11 regions (including Tianjin, Hebei, Shanghai and other eight locations); from 21 January 2021, the electronic special VAT invoice shall be implemented in 25 regions (including Beijing, Shanxi, Liaoning and other 22 locations). The scope of drawee shall be nationwide.
- The tax invoice stamp (发票专用章) shall be replaced by electronic signature for electronic special VAT invoices. The legal effect, major purpose and basic usage regulations of the electronic special VAT invoices are the same as the previous paper invoices.
- Taxpayers' special VAT invoices collection and usage amount shall be confirmed by tax authorities based on the total amount of electronic and paper special VAT invoices. The limits of special VAT invoice issuance for electronic and paper special VAT invoices shall be the same.

PN 22 also specified the procedures of an electronic red-letter special VAT invoice issuance due to sales return, incorrect information, suspension of taxable services, sales allowance, etc. PN 22 became effective on 21 December 2020. The detailed scope of new taxpayers for special VAT invoices shall be specified by tax authorities at the provincial level. Taxpayers are encouraged to read PN 22 for more details and pay attention to the relevant notice issued by local tax authorities. If in doubt, consultations with professionals are always helpful.

You can click this link to access the full content of PN 22:

<http://www.chinatax.gov.cn/chinatax/n359/c5159928/content.html>

► **Notice regarding the 2021 tariff adjustment plan (Shuiweihui [2020] No. 33)**

**Synopsis**

On 21 December 2020, the Customs Tariff Commission of the State Council released Shuiweihui [2020] No. 33 ("Circular 33") regarding the 2021 tariff adjustment plan which shall become effective on 1 January 2021.

According to Circular 33, from 1 January 2021, 883 import commodities shall be subject to temporary tariff rates. Among these, the temporary tariff rates that apply to nine information technology products shall be cancelled from 1 July 2021. Eight commodities, including wheat, shall still be under the administration of tariff quota. Importation of cotton outside the tariff quota shall be subject to Sliding Scale Duty.

Upon adjustment, tariff items of 2021 Customs Tariff of Import and Export Commodities shall be increased to 8,580.

You can click this link to access the full content of Circular 33:

[http://gss.mof.gov.cn/gzdt/zhengcefabu/202012/t20201223\\_3636573.htm](http://gss.mof.gov.cn/gzdt/zhengcefabu/202012/t20201223_3636573.htm)

### ► **Measures for the Security Review of Foreign Investment (NDRC/MOFCOM Order [2020] No. 37)**

#### **Synopsis**

According to the Foreign Investment Law promulgated in 2019, a suggestion was made to establish a mechanism for the security review of foreign investment in regards to potential national security issue caused by foreign investments. In response to the provision hereof, the National Development and Reform Commission (NDRC) and Ministry of Commerce (MOFCOM) jointly issued the Measures for the Security Review of Foreign Investment (hereinafter referred to as the "Security Review Measures") on 19 December 2020, which shall come into force 30 days after the date of promulgation, i.e., 18 January 2021.

The Security Review Measures consist of 23 articles, among which, some key features are summarized as follows:

#### **Scope of review**

- Investment in the military industry, military industry-supporting facilities and other fields related to national defense, security and military facilities;
- Investment in any important agricultural products, important energy and resources, major equipment manufacturing, important infrastructure, important transportation services, important cultural products and services, important information technology and internet products and services, important financial services, key technologies and other important fields related to national security while obtaining the actual control of the invested enterprises.

#### **Declaration of investment**

Foreign investors or relevant parties within the territory of China should voluntarily declare the investment that falls within the scope of review prior to making the investment. For foreign investment that should be reported but not reported, the Office of the Foreign Investment Security Review Work Mechanism has the right to request declaration by certain deadline.

#### **Review procedures and time limits**

Generally, review procedures include preliminary reviews (within 15 working days), general reviews (within 30 working days) and special reviews (within 60 working days, if necessary).

#### **Punishment for violation**

In case of any violation such as fraud, failure to implement additional conditions and other violations, the party concerned should dispose the related equity or assets within a time limit. In addition, bad credit records may be incorporated into the national credit information system and joint punishments may be imposed in accordance with relevant regulations.

Foreign investors and foreign investment enterprises are advised to make reference to the Security Review Measures for more details and observe the regulations. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of the Security Review Measures:  
[http://www.gov.cn/zhengce/zhengceku/2020-12/19/content\\_5571291.htm](http://www.gov.cn/zhengce/zhengceku/2020-12/19/content_5571291.htm)

## Customs circular

- ▶ **Notice regarding the "Administrative Measures of the Customs of the People's Republic of China (PRC) for the Duty Reduction and Exemption of Imports and Exports" (GAC Order [2020] No. 245)**

### Synopsis

On 21 December 2020, the General Administration of Customs (GAC) released the updated Administrative Measures of the Customs of the PRC for the Duty Reduction and Exemption of Imports and Exports (hereinafter referred to as the "new Administrative Measures") via GAC Order [2020] No. 245. The Administrative Measures would become effective on 1 March 2021 and the previous version of Administrative Measures of the Customs of the PRC for the Duty Reduction and Exemption of Imports and Exports updated via GAC Order [2018] No. 240 (hereinafter referred to as the "2018 Administrative Measures") shall be abolished simultaneously.

Key changes of the new Administrative Measures are as follows:

- ▶ According to the New Administrative Measures, the duty reduction/exemption of import/export goods are subject to confirmation by the supervising Customs instead of the previous record filing and approval process. The Customs shall confirm the application for duty reduction/exemption submitted by the applicants within 10 working days. No prior record filing is required.
- ▶ A Notification for Confirmation of Duty Collection/Exemption (征免税确认通知书) shall be issued by the supervising Customs for duty exempt/reduced goods instead of the previous version of Certification of Duty Collection/Exemption as prescribed in the 2018 Administrative Measures.
- ▶ For duty exempt/reduced goods that are applied for a duty guarantee, the applicants shall receive a Notification of Duty Guarantee for Duty Exempt/Reduced Goods instead of the previous version of Certification of Duty Guarantee for Duty Exempt/Reduced Goods as prescribed in the 2018 Administrative Measures.

Enterprises engaging in export/import goods are suggested to read the New Administrative Measures for more details.

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

<http://www.customs.gov.cn/customs/302249/2480148/3475961/index.html>

You can click this link to access the full content of the 2018 Administrative Measures:

<http://www.customs.gov.cn/customs/302249/302266/302268/1868425/index.html>

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

- ▶ **Notice regarding public opinion consultation on the abolishment of the "Administrative Regulations for the Registration of Foreign-invested Partnership Enterprises"**  
[http://www.samr.gov.cn/hd/zjdc/202012/t20201222\\_324596.html](http://www.samr.gov.cn/hd/zjdc/202012/t20201222_324596.html)
- ▶ **Business Manual of the Exchange-rate Risk Aversion of Foreign Economic and Trade Enterprises**  
<http://www.mofcom.gov.cn/article/zwgk/bnjj/202012/20201203023529.shtml>
- ▶ **Guiding opinions on further improving the restrained mechanism for dishonest acts and building a long-term mechanism for honesty (Guobanfa [2020] No. 49)**  
[http://www.gov.cn/zhengce/content/2020-12/18/content\\_5570954.htm](http://www.gov.cn/zhengce/content/2020-12/18/content_5570954.htm)
- ▶ **Notice regarding the approval on the recognition of 51 pilot cities (districts) of national industrial and financial cooperation (Gongxinbuliancaihan [2020] No. 340)**  
[http://www.gov.cn/zhengce/zhengceku/2020-12/18/content\\_5570642.htm](http://www.gov.cn/zhengce/zhengceku/2020-12/18/content_5570642.htm)

- ▶ **Administrative Measures for Batch Approval of Biological Products (SAMR Order [2020] No. 33)**  
<https://www.nmpa.gov.cn/xxgk/fgwj/bmgzh/20201221174641125.html>
- ▶ **Notice regarding the "Regulations on Inspection of the Statistics of External Financial Assets, Liabilities and Transactions (2020 Version)" (Huizongfa [2020] No. 94)**  
<http://www.safe.gov.cn/safe/2020/1221/17848.html>
- ▶ **PN regarding public opinion consultation on the "Administrative Measures for National Standards (Discussion Draft)"**  
[http://www.samr.gov.cn/hd/zjdc/202012/t20201215\\_324374.html](http://www.samr.gov.cn/hd/zjdc/202012/t20201215_324374.html)
- ▶ **Implementation opinions on promoting the development of the postal industry in the Guangdong-Hong Kong-Macao Greater Bay Area (Guoyoufa [2020] No. 78)**  
[http://www.cnbayarea.org.cn/policy/policy%20release/policies/content/post\\_304999.html](http://www.cnbayarea.org.cn/policy/policy%20release/policies/content/post_304999.html)
- ▶ **PN regarding matters related to the disclosure of information for commercial acceptance drafts (PBOC PN [2020] No. 19)**  
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4149874/index.html>
- ▶ **Approval on expanding the area of the experimental zone for deepening cross-strait industrial cooperation in Kunshan (Guohan [2020] No. 168)**  
[http://www.gov.cn/zhengce/content/2020-12/23/content\\_5572763.htm](http://www.gov.cn/zhengce/content/2020-12/23/content_5572763.htm)
- ▶ **Notice regarding the import quota, application qualification, allocation principles and related procedures of import volume for crude oil (heating oil) imported by non-state-operated trading companies in 2021**  
<http://www.mofcom.gov.cn/article/zwgk/zcfb/202012/20201203026022.shtml>
- ▶ **Notice regarding the pilot run on delegating approval authority for qualification of construction engineering enterprises (Jianbanshihan [2020] No. 654)**  
[http://www.mohurd.gov.cn/wjfb/202012/t20201224\\_248588.html](http://www.mohurd.gov.cn/wjfb/202012/t20201224_248588.html)
- ▶ **PN regarding certain matters related to the inspection and supervision of the imported and exported hazardous chemicals and their packaging (GAC Order [2020] No. 129)**  
<http://www.customs.gov.cn/customs/302249/2480148/3475824/index.html>
- ▶ **Order regarding the "Decisions of the GAC on the Abolishment of Certain Regulations" (GAC Order [2020] No. 244)**  
<http://www.customs.gov.cn/customs/302249/2480148/3475957/index.html>
- ▶ **Notice regarding the "Administrative Measures of the Customs of the PRC for Administrative Licensing" (GAC Order [2020] No. 246)**  
<http://www.customs.gov.cn/customs/302249/2480148/3477654/index.html>
- ▶ **Reply on the creation of the domestic area code and customs statistical economic zone code for the Nanchong Bonded Logistics Center (Type B) (Tongjihan [2020] No. 68)**  
<http://gkml.customs.gov.cn/tabid/1165/InfoID/46563/Default.aspx>
- ▶ **Notice regarding certain matters related to the implementation of the import-level tax policies for key technology equipment (Shushuifa [2020] No. 224)**  
<http://gkml.customs.gov.cn/tabid/1165/InfoID/46591/Default.aspx>
- ▶ **PN regarding revised origin criteria under the Mainland and Macao Closer Economic Partnership Arrangement (CEPA)**  
<http://www.customs.gov.cn/customs/302249/2480148/3483165/index.html>
- ▶ **Order on promulgating the "Decisions of the GAC on Amending Some Regulations" (GAC Order [2020] No. 247)**  
<http://www.customs.gov.cn/customs/302249/2480148/3482940/index.html>

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APAC no. 03011729  
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