

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 regarding the zero-tariff policy for self-use manufacturing equipment in Hainan Free Trade Port (FTP) (Caiguanshui [2021] No. 7)**
- ▶ **Public notice (PN) regarding the "Implementation Measures of Hainan FTP on the Zero-tariff Policy for Self-use Manufacturing Equipment (Trial)" (GAC PN [2021] No. 23)**

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 General Administration of Customs (GAC) jointly released Caiguanshui [2021] No. 7 ("Circular 7") on 4 March 2021 to specify the zero-tariff policy for self-use manufacturing equipment in Hainan FTP.

According to Circular 7, enterprises with independent legal entity status that are registered in Hainan FTP may be exempt from Customs Duty, import level Value-added Tax (VAT) and Consumption Tax (CT) for importing self-use equipment for manufacturing purpose, except for those commodities covered in the Negative list (i.e., attachment of Circular 7 which shall be subject to dynamic adjustments by the relevant authorities) or the lists of prohibited importation commodities or non-tax exempt commodities in accordance with relevant laws and regulations. Circular 7 also defined the term of self-use manufacturing equipment.

It is worth noting that, as prescribed in Circular 7, for the time being, importation of self-use equipment that fall within the Catalog of Key Technological Equipment and Products not exempt from Import-level Taxes, Catalog of Import Commodities not exempt from Import-level Taxes for Foreign Investment Projects or the Catalog of Imported Commodities not exempt from Import-level Taxes for Domestic Investment Projects by qualifying enterprises could still apply the abovementioned zero-tariff Policy.

Accordingly, the GAC announced GAC PN [2021] No. 23 ("PN 23") on the same day to specify the relevant issues in respect of Circular 7 from Customs implementation perspectives, such as the recognition of qualifying enterprises, matters related to the customs declaration for the importation of self-use equipment, customs supervision period as well as other administrative requirements to be fulfilled by qualifying enterprises, etc.

Both Circular 7 and PN 23 became effective on their promulgation date, i.e., 4 March 2021. Relevant parties are encouraged to read Circular 7 and PN 23 for more details so as to leverage the preferential treatments. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 7:

http://gss.mof.gov.cn/gzdt/zhengcefabu/202103/t20210304_3665364.htm

You can click this link to access the full content of PN 23:

<http://www.customs.gov.cn/customs/302249/2480148/3563640/index.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

► **Notice regarding the policy for domestic vessels engaged in domestic and foreign trade that refuel with bonded oil and locally produced fuel oil in Hainan FTP (Caishui [2021] No. 2)**

Synopsis

To implement the Plan, the MOF, STA, GAC, Ministry of Transport (MOT) and Ministry of Commerce (MOCOM) released Caishui [2021] No. 2 ("Circular 2") on 26 March 2021 to clarify the policy for domestic vessels engaged in domestic and foreign trade that refuel with bonded oil and locally produced fuel oil in Hainan FTP.

Key features of Circular 2 are as follows:

- Before the launch of independent customs operations throughout Hainan Island, domestic vessels engaged in domestic and foreign trade with Yangpu Port as the transit port are allowed to refuel with bonded oil for the current voyage at Yangpu Port. Refueling with locally produced fuel oil at Yangpu Port is entitled to export tax refund. Local fuel oil production enterprises in Hainan can declare export tax refund (exemption). The above-mentioned bonded oil and locally produced fuel oil entitled to export tax refund are collectively referred to as "duty-free oil" and are exempt from tariff, VAT and CT.
- The "domestic vessel engaged in domestic and foreign trade" refers to a vessel carrying both domestic and foreign trade cargo. The "current voyage" refers to the voyage from the port of departure to Yangpu Port and the voyage from Yangpu Port to the port of destination.

- ▶ Vessels can apply for refueling on a cumulative basis for multiple voyages. Production enterprises of duty-free oil shall refuel duty-free oil to these vessels based on the amount of refueled duty-free oil determined by the transport authorities and submit relevant information to tax authorities.

Circular 2 became effective on its promulgation date. The provisions of Circular 2 shall also apply to those domestic vessels engaged in domestic and foreign trade that refueled duty-free oil after the promulgation of the Plan but before the promulgation of Circular 2. Relevant taxpayers are encouraged to read Circular 2 for more details so as to leverage the preferential treatments. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 2:

http://www.hnftp.gov.cn/zcfg/zcwj/bwzc/202103/t20210304_3314998.html

- ▶ **PN regarding extending the third set of exclusions to the goods originating from the United States that are imposed with additional tariffs (CTC PN [2021] No. 2)**

Synopsis

According to CTC PN [2020] No. 3 ("PN 3", i.e., PN regarding the first set of goods originating from the United States to be excluded from the second round of additional tariffs), the first set of exclusions to the second round of additional tariffs on imports from the United States expired on 27 February 2021. On 26 February 2021, the Customs Tariff Commission (CTC) of the State Council released CTC PN [2021] No. 2 ("PN 2") to extend the exclusions:

From 28 February 2021 until 16 September 2021, 65 types of goods listed in the Annex of PN 2 continue to be excluded from the additional tariffs against the US Section 301 measures.

Relevant enterprises are encouraged to see the Annex of PN 2 for details of the extended exclusion list. If in doubt, consultations with professionals are always recommended.

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

http://gss.mof.gov.cn/gzdt/zhengcefabu/202102/t20210226_3662916.htm

Business circular

- ▶ **Report on the Work of the Government (2021)**

Synopsis

At the beginning of the fourth session of the 13th National Party Congress, the Premier of the State Council of the People's Republic of China (PRC), delivered a Report on the Work of the Government (2021) (hereinafter referred to as the "2021 Report") on 5 March 2021, in which he reviewed the achievements of government authorities of the PRC in 2020 and set the GDP growth target for 2021 at above six percent.

Key tax related contents mentioned in the 2021 Report include:

Super deduction of eligible research & development (R&D) expenses

According to the Corporate Income Tax (CIT) policies, from 1 January 2018 to 31 December 2020, all enterprises may claim a 175% super deduction on eligible R&D expenses. In this respect, the 2021 Report prescribes that such super deduction policy shall be further extended and expanded as follows:

- ▶ Manufacturing enterprises shall be entitled to claim a 200% super deduction on eligible R&D expenses.
- ▶ For other enterprises except for manufacturing enterprises, a 175% super deduction on eligible R&D expenses shall apply.

Refund of input VAT credits brought forward from the previous periods for taxpayers engaging in the advanced manufacturing industry in full

According to the prevailing VAT policies, starting from 1 June 2019, certain eligible advanced manufacturing taxpayers may apply for a refund of the incremental input VAT credits brought forward from previous periods, i.e., Refundable incremental input VAT credits = Incremental input VAT credits x Input composition ratio¹.

As mentioned in the 2021 Report, it is understood that the input VAT credits for taxpayers engaging in the advanced manufacturing industry shall be refunded in full to further ease the burden of relevant enterprises.

Expand the scope of the “Environmental Protection and Energy and Water Conservation Projects Qualifying for CIT Preferential Treatment Catalog”

As mentioned in the 2021 Report, the scope of the prevailing version of “Environmental Protection and Energy and Water Conservation Projects Qualifying for CIT Preferential Treatment Catalog” shall be further expanded. In this respect, it is anticipated that more enterprises engaging in this field can be eligible for a CIT holiday of three-year exemption followed by another three-year reduction of 50%.

VAT preferential treatments for small scale VAT taxpayers

Certain periodical VAT preferential treatments for small scale VAT taxpayers shall be further extended. And as mentioned in the 2021 Report, the current monthly VAT exemption cap for small-scale VAT taxpayers shall be increased from monthly sales of RMB100,000 to RMB150,000.

Income Tax preferential treatments for small and micro-sized enterprises as well as individual industrial and commercial households

According to the prevailing CIT policies, for qualified small and micro-sized enterprises, the first one million yuan of annual taxable income is eligible for 75% reduction when calculating CIT and the income between one million yuan and three million yuan is eligible for 50% reduction. The applicable CIT rate is 20%.

According to the 2021 Report, a 50% CIT/Individual Income Tax reduction may be applied to the first one million yuan of annual taxable income derived by small and micro-sized enterprises and individual industrial and commercial households.

The key features of the outline for the 14th Five-Year Plan for Economic and Social Development and Long-range Objectives through the year 2035 drafted by the State Council was also included in the 2021 Report.

We have issued a WeChat news article on 5 March 2021 (in Chinese only) to discuss the 2021 Report in greater details, you can follow us on WeChat by scanning the QR Code on the last page of this CTIE and search keywords to access the full contents of the WeChat news article.

As a common practice, the MOF, STA as well as other related government authorities shall stipulate and announce tax and business circulars to further address the measures mentioned in the 2021 Report from implementation perspective. We will keep an eye on any further developments in this regard, please stay tuned.

¹ The “input composition ratio” refers to the ratio of deducted VAT indicated on special VAT invoices (including unified invoices of motor vehicle sales for tax control), the Customs special VAT payment certificates for imports (海关进口增值税专用缴款书) and VAT payment certificates (解缴税款完税凭证) from April 2019 to the taxation period prior to the application for the VAT refund to all the deducted input VAT for the same period.

You can click this link to access the full content of the 2021 Report:
http://www.gov.cn/premier/2020-05/22/content_5513757.htm

- **Notice regarding the “Catalog of Administrative Measures for Customs Certified Enterprises” (Shuqifa [2021] No. 16)**

Synopsis

To promote the customs credit supervision system, on 25 February 2021, the GAC released the “Catalog of Administrative Measures for Customs Certified Enterprises” (hereinafter referred to as the “Catalog”) via Shuqifa [2021] No. 16.

Catalog covers five types of measures and 22 items in total. The key features are as follows:

Types	Administrative measures	Applicable enterprises
Priorities on handling	Enterprises may enjoy the priorities on the handling of customs formalities (i.e., registration, filing and formalities on customs clearance for import and export goods), applicable to the innovation system of customs reform and recommendation of registration overseas.	certified enterprises
	Enterprises may enjoy the prioritized customs clearance after interruption of international trade due to force majeure, as well as the priorities on the statistical data service and handling of advance rulings application.	advanced certified enterprises
Reduction on frequency of supervision	Enterprises may enjoy the lower inspection rate for import and export goods.	general and advanced certified enterprises
	Reduction on the frequency of inspection and quarantine for import and export goods.	advanced certified enterprises
Reduction on customs clearance costs	Reduction on the amount of guarantee.	general certified enterprises
	Enterprises may apply for exemption of guarantee and be applicable to policies of “release first and testing later” and non-intrusive inspection for import and export goods.	advanced certified enterprises
	The supervision shall be implemented both online and offline with the integrity undertaking of enterprises.	
Shorten the handling time	Shorten the time for the approval of inspection and quarantine issues	certified enterprises
	Shorten the application time for making the request of customs clearance appointment	advanced certified enterprises
Promotion services	Customs shall install coordinators, provide special credit cultivation and credit information service, and help to solve the problem on cross-zone customs clearance for enterprises.	advanced certified enterprises

Relevant parties are encouraged to read the Catalog for further details and enjoy the applicable priorities.

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

<http://gkml.customs.gov.cn/tabid/1165/InfoID/47674/Default.aspx>

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

- ▶ **Guiding opinions on further mobilizing social forces to carry out tax voluntary service (Shuizongfa [2021] No. 15)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5162030/content.html>
- ▶ **Opinions on promoting and ensuring trustees to perform duties in bankruptcy procedures in accordance with law to further optimize the business environment (Fagaicaijingui [2021] No. 274)**
https://www.ndrc.gov.cn/xxgk/zcfb/ghxwj//202102/t20210226_1268501.html
- ▶ **Notice regarding stabilizing foreign investment for building the new development pattern**
<http://www.mofcom.gov.cn/article/news/202103/20210303041579.shtml>
- ▶ **Opinions on providing judicial services and guarantees for the construction of the Chengdu-Chongqing economic circle (Fafa [2021] No. 4)**
<http://www.court.gov.cn/fabu-xiangqing-288441.html>
- ▶ **Judicial Adjudication Summary of the Intellectual Property Count of the Supreme People's Court (2020)**
<http://enipc.court.gov.cn/zh-cn/news/view-1068.html>
- ▶ **2021 Legislative Plan of the Ministry of Transport**
http://xxgk.mot.gov.cn/2020/jigou/fgs/202103/t20210302_3529259.html
- ▶ **Notice regarding public opinion consultation on the "Measures for Administrative Adjudication of Major Patent Infringement Disputes (Discussion Draft)"**
https://www.cnipa.gov.cn/art/2021/3/2/art_75_157045.html
- ▶ **Interpretation of the application of punitive compensation in the civil cases of the infringement of intelligent property rights (Fashi [2021] No. 4)**
<http://www.court.gov.cn/fabu-xiangqing-288861.html>
- ▶ **Notice regarding promoting the experience of national administrative adjudication in patent infringement disputes (Guozhibanfaqaozi [2021] No. 8)**
https://www.cnipa.gov.cn/art/2021/3/3/art_75_157143.html
- ▶ **List of institutions eligible for the cross-border transportation of foreign cash**
<http://www.safe.gov.cn/safe/2021/0301/18383.html>
- ▶ **Notice regarding the "Provisional Measures on the Administration of Changes of Sub Funds of Venture Capital Guidance Funds for the Transformation of National Scientific and Technological Achievements" (Guokefaqu [2021] No. 46)**
http://www.most.gov.cn/xxgk/xinxifenlei/fdzdgknr/fqzc/gfxwj/gfxwj2021/202103/t20210305_161556.htm



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