

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

- ▶ **Public notice (PN) regarding further improving the super deduction policy for research & development (R&D) expenses (MOF/STA [2021] No. 13)**

Synopsis

According to the State Council's executive meeting on 24 March 2021, the super deduction of R&D expenses for manufacturing enterprises shall be further raised from 175% to 200% (with retroactive effect from 1 January 2021), in order to encourage the innovation of enterprises.

In response, the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released MOF/STA [2021] No. 13 ("PN 13") on 31 March 2021 to specify the super deduction policy for manufacturing enterprises as follows:

200% super deduction

- ▶ From 1 January 2021, manufacturing enterprises are allowed to claim a 200% super deduction on eligible R&D expenses actually incurred in the course of R&D activities for Corporate Income Tax (CIT) purposes. Alternatively, if R&D expenses incurred are capitalized as intangible assets, such enterprises are allowed to amortize the intangible assets based on 200% of the actual costs incurred.

- ▶ Among these, PN 13 specifies that the manufacturing enterprises should derive over 50% of annual operating income from manufacturing industries as prescribed in the prevailing Industrial classification for national economic activities (GB/T 4574-2017).

Claiming super deduction

- ▶ Eligible enterprises may choose to claim the super deduction of R&D expenses incurred in the first half of a year under the provisional CIT filing for the third quarter or the month of September (to be completed in October). The enterprises are required to perform self-assessment before applying the tax preference and maintain the relevant supporting documents for future references.
- ▶ To be specific, when claiming the super deduction of R&D expenses incurred in the first half of a year during CIT filing, an eligible enterprise should calculate the deductible R&D expenses and complete the provisional CIT return as well as the schedule for tax preferential treatments on R&D expenses (i.e., schedule A107102). The schedule should be kept with other supporting documents for tax authorities' future enquiries, if happens.

Alternatively, enterprises can choose to claim the total amount of R&D expenses in the annual CIT filing (to be completed by the end of May in the year following.)

PN 13 became effective on 1 January 2021. Other than those specified in PN 13, matters related to the R&D super deduction for eligible manufacturing enterprises shall still be referenced to Caishui [2015] No. 119 ("Circular 119", i.e., Notice regarding the improvement of policies related to the super deduction of R&D expenses for CIT purposes) and Caishui [2018] No. 64 ("Circular 64", i.e., Notice regarding certain policy matters related to the super deduction of expenses incurred for R&D activities outsourced overseas for CIT purposes).

Taxpayers are advised to read PN 13 and relevant circulars mentioned in detail so as to properly enjoy the tax preferences offered. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of PN 13:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5163160/content.html>

You can click this link to access the full content of the official news regarding the executive meeting:

http://www.gov.cn/premier/2021-03/24/content_5595379.htm

You can click this link to access the full content of the Industrial classification for national economic activities (GB/T 4574-2017):

<http://www.stats.gov.cn/tjsj/tjbz/hyflbz/201710/P020180402592800336381.docx>

You can click this link to access the full content of Circular 119:

<http://www.chinatax.gov.cn/n810341/n810755/c1878881/content.html>

You can click this link to access the full content of Circular 64:

<http://www.chinatax.gov.cn/n810341/n810755/c3544428/content.html>

- ▶ **Catalog of sub-industries of the tourism, modern services and high-and-new technology sectors in Hainan Free Trade Port (FTP) eligible for preferential CIT policies**

Synopsis

As prescribed in Caishui [2020] No. 31 ("Circular 31", i.e., Notice regarding the CIT preferential policies for enterprises in Hainan FTP) which was issued by the MOF and STA on 23 June 2020, for enterprises registered in Hainan FTP and engaged in the tourism, modern services or high-and-new technology industries, any income derived from new outbound direct investments made before 2025 shall be exempt from CIT provided that all the following conditions are met:

- ▶ The income is the operating profit derived by a newly established overseas branch; or the income is the dividend repatriated from an overseas subsidiary with 20% and more shares owned by the enterprise and corresponding to new outbound direct investments; and
- ▶ The statutory CIT rate of the jurisdiction that the enterprise is investing in is no less than 5%.

Accordingly, on 9 April 2021, the MOF and STA jointly announced the Catalog of sub-industries of the tourism, modern services and high-and-new technology sectors in Hainan FTP eligible for preferential CIT policies (hereinafter referred to as the “Catalog”) to specify the detailed scope of sub-industries that are eligible for the CIT exemption. To be specific, the Catalog includes 14 items of six categories under the tourism industries and 131 items of 22 categories under the modern services industries and 324 items of 36 categories under the high-and-new technology industries.

Circular 31 and the Catalog are valid from 1 January 2020 to 31 December 2024, which means that the eligible enterprises may be able to claim the CIT exemption as early as in the 2020 annual CIT filing (to be completed by the end of May 2021).

It is important for the relevant enterprises to observe the relevant tax policies and leverage the tax preferences. If in doubt, consultations with professionals are always recommended.

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

https://mp.weixin.qq.com/s/A0x1uUP2erYiDICSU_ZQaQ

You can click this link to access the full content of Circular 31:

http://szs.mof.gov.cn/zhengcefabu/202006/t20200630_3540842.htm

► **PN regarding continuously implementing the preferential Value-added Tax (VAT) policy for the cultural promotion industry (MOF/STA PN [2021] No. 10)**

Synopsis

To promote development of the cultural promotion industry, on 22 March 2021, the MOF and STA jointly released MOF/STA PN [2021] No. 10 (“PN 10”) to further extend the preferential VAT policies for the cultural promotion industry as prescribed in Caishui [2018] No. 53 (“Circular 53”, i.e., Notice regarding the extension of preferential VAT policies on the cultural promotion industry) for the period from 1 January 2021 to 31 December 2023.

Key features of PN 10 are as follows:

VAT “Levy First and Refund Later” (LFRL) policies

- 100% VAT refund on the LFRL basis at the publishing level for eligible publications (e.g., textbooks for high schools or primary schools, newspaper or journals for elders, books/newspaper/journals included in Attachment I of PN 10).
- 50% VAT refund on the LFRL basis at the publishing level for eligible publications (including books, journals, audio-visual products and electronic publications which are not eligible for the 100% VAT refund and newspaper as set out in Attachment II of PN 10).
- 100% VAT refund on the LFRL basis for the prescribed printing/production businesses (i.e., printing/production business of publications in minority languages and printing business listed in Attachment III of PN 10).

VAT exemption

- Wholesale and retail of books shall be exempt from VAT.
- Revenue derived from entrance tickets for exhibitions organized by association for science and technology or government authorities at the county level or above shall be exempt from VAT.

PN 10 became effective from 1 January 2021 and replaced Circular 53 simultaneously. Taxpayers engaging in the cultural promotion industry should refer to details of PN 10 and its attachments to assess their eligibilities to enjoy the above-mentioned preferential VAT treatments. If in doubt, consultation with professionals are always recommended.

You can click this link to access the full content of PN 10:

http://szs.mof.gov.cn/zhengcefabu/202104/t20210407_3682306.htm

You can click this link to access the full content of Circular 53:

<http://www.chinatax.gov.cn/n810341/n810755/c3497821/content.html>

Business circular

▶ **Opinions on certain special measures for relaxing the market access to support the construction of Hainan FTP (Fagaitigai [2021] No. 479)**

Synopsis

To further support Hainan in building a market access system and a market environment with Chinese characteristics and to build the FTP with high quality and high standards, the National Development and Reform Commission (NDRC) and Ministry of Commerce (MOCOM) recently issued opinions on certain special measures for relaxing the market access to support the construction of Hainan FTP (hereinafter referred to as the "Opinions") via Fagaitigai [2021] No. 479.

Key features of the Opinions are as follows:

Healthcare sector

- ▶ Support online prescription drug sales. Establish the Hainan E-prescription Center in the Hainan Boao Lecheng Pilot Zone of International Medical Tourism (hereinafter referred to as "Lecheng Pilot Zone"), in which drugs sold domestically are allowed for Internet sales through the e-prescription center.
- ▶ Enhance support for drug market access. The People's Government of Hainan Province shall optimize the R&D, testing, production, and application environment of drugs (including traditional Chinese medicine, chemical drugs and biological products), and encourage domestic and foreign pharmaceutical enterprises and drug R&D institutions to develop innovative drugs and improved drugs in Hainan.
- ▶ Support the development of high-end medical cosmetology in Hainan. Encourage well known medical cosmetology institutions to settle in the Lucheng Pilot Zone and allow those institutions to use the medical beauty products sold in their original countries and regions such as the United States, European Union, Japan, etc. in batches.
- ▶ Set up the Hainan Healthcare Development and Reform Fund. Under the guidance of the NDRC, the Hainan government shall support the establishment of Healthcare Development and Reform Fund that are funded by social capital and operated on a market-oriented basis, and support the development of related industries.

Financial sector

- ▶ Support the development of securities, insurance and investment fund industries in Hainan. Support financial institutions such as securities and fund companies to settle in Hainan in accordance with the law and encourage the development of commercial insurance for healthcare and long-term care, and support pension finance in various forms.
- ▶ Strengthen data and information sharing and carry out pilot projects to support the development of the whole agricultural industry chain. Encourage various financial institutions to provide financial support for the construction of the whole agricultural industry chain with the use of third-party evaluation information in accordance with the law, and encourage insurance institutions to provide agricultural insurance services.

Cultural sector

- ▶ Support the construction of Hainan International Cultural Relics and Artworks Trading Center. Encourage domestic and foreign well-known auction institutions to carry out business in the trading center and provide policy support for customs clearance facilitation, bonded goods supervision, warehousing and logistics.
- ▶ Encourage the development of cultural performance industry. Implement internationally competitive incentives for the cultural industry and optimize the approval of commercial performance, entertainment business activities and game entertainment products.

- ▶ Relax the market access to the cultural relics industry. Implement the notification and commitment mechanism for the approval of establishing cultural relic stores in Hainan and support the establishment of market-oriented research institutions for the restoration, protection and appraisals of cultural relics.

Education sector

- ▶ Encourage universities to transform scientific and technological achievements in Hainan.
- ▶ Support domestic well-known universities to establish international colleges in Hainan.
- ▶ Encourage Hainan to vigorously develop vocational education in the fields of medical and health care, cultural performance, cultural relics restoration and appraisals.

Other key sectors

- ▶ Optimize the market access environment and promote the high-quality development of commercial aerospace sector in Hainan.
- ▶ Relax the market access to the civil aviation industry. Encourage social capital to invest in general aviation, aviation fuel support, aircraft maintenance services, etc.
- ▶ Relax the market access to the sports market. Encourage the development of outdoor sports such as beach sports and water sports.
- ▶ Support the construction and operation of charging and swapping infrastructure for new energy vehicles in Hainan.

Relevant enterprises that have invested or plan to invest in Hainan FTP are advised to read the Opinions carefully so as to leverage the above in the development plans. If in doubt, consultations with professionals are always recommended.

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

https://www.ndrc.gov.cn/xxgk/zcfb/tz//202104/t20210408_1271896.html

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

- ▶ **PN regarding the "Catalogue of Non-transport Specialized Operation Vehicles Equipped with Fixtures That Are Exempt from Vehicle Purchase Tax"(first bath) (STA/MIIT PN [2021] No. 7)**
<http://www.chinatax.gov.cn/chinatax/n371/c5163030/content.html>
- ▶ **Notice regarding the import-level tax policy on maintenance and repair supplies of civil aviation for 2021-2030 (Caiguanshui [2021] No. 15)**
http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210407_3682300.htm
- ▶ **Notice regarding the administrative measures for the import-level tax policy on maintenance and repair supplies of civil aviation for 2021-2030 (Caiguanshui [2021] No. 16)**
http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210407_3682305.htm
- ▶ **Notice regarding the import-level tax policy for anti-HIV (Human Immunodeficiency Virus) drugs for 2021-2030 (Caiguanshui [2021] No. 13)**
http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210407_3682297.htm
- ▶ **Notice regarding the preferential tax policies for the sales of imported exhibits at international fairs in the central and western regions during the 14th Five-Year Plan period (Caiguanshui [2021] No. 21)**
http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210409_3683426.htm

- ▶ **Notice regarding further promoting foreign exchange facilitation for individual current accounts (Huifa [2021] No. 13)**
http://www.gov.cn/zhengce/zhengceku/2021-04/02/content_5597577.htm
- ▶ **Notice regarding further optimizing the opening-up services for the infrastructure of inter-bank bond markets and enhancing interim- and post-event administration (Yinbanfa [2021] No. 34)**
<http://www.pbc.gov.cn/rmyh/105208/4220828/index.html>
- ▶ **Provisional Regulations on the Record-filing Administration of the Appointment of Directors, Supervisors and Senior Executives of Financial Holding Companies (PBOC Order [2021] No. 2)**
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4222917/index.html>
- ▶ **Notice regarding public opinion consultation on the “Supplementary Regulatory Provisions on Systematically Important Banks (Trial) (Discussion Draft)”**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=974739>
- ▶ **Notice regarding replicating and rolling out the innovative measures and experience of Shanghai Pudong New Area (Fagaidiqu [2021] No. 345)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz//202104/t20210407_1271796.html
- ▶ **Notice regarding further enhancing the administration and strictly regulating the behavior of social organizations (Minsheguanhan [2021] No. 43)**
http://www.gov.cn/zhengce/zhengceku/2021-04/06/content_5598049.htm



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