

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

- ▶ **Public notice (PN) regarding certain matters related to Deed Tax (DT) collection, administration and tax services (STA PN [2021] No. 25)**
- ▶ **PN regarding the transition of certain preferential policies after the effectiveness of the DT Law of the People's Republic of China (MOF/STA PN [2021] No. 29)**

Synopsis

According to the DT Law of the People's Republic of China (hereinafter referred to as the "DT Law") which became effective on 1 September 2021 and MOF/STA PN [2021] No. 23 ("PN 23", i.e., PN regarding the implementation of certain DT related matters), the following DT rules were released by the relevant government authorities to further specify the relevant DT issues.



STA PN [2021] No. 25 (“PN 25”) released on 26 August 2021 to specify DT related matters including:

- ▶ DT should be filed based on the basic unit of immovable properties, i.e., the one registered with the competent department supervising immovable properties registrations (hereinafter referred to as the “local competent department”) with unique encoding. As further elaborated in the official interpretation of the State Taxation Administration (STA), where an individual purchased a building which was registered as two basic units, the individual should file DT for these two basic units separately. In addition, for transfer of titles of land/real properties due to changes of ratio of co-ownership of the immovable assets/co-owners, the taxpayer should also file DT based on the basic unit of immovable properties.
- ▶ For transfer of titles of lands/real properties due to contribution to investment, repayment of debt, etc., the applicable DT rate and tax basis should be determined with reference to those applicable to transfer of land use right and real properties.
- ▶ For transfer of lands/real properties through land allocation (划拨) or award which is without a measurement of price, the applicable DT rate and tax basis should be determined with reference to those applicable to transfer of land use right/real properties by means of gift.
- ▶ PN 25 reiterates that the tax basis of DT does not include Value-added Tax (VAT):

Taxable transactions	Tax basis
Sales of land use right or real properties	VAT-exclusive price as indicated on the VAT invoice
Swap of land use right/real properties	Differences of the price (VAT-exclusive)
Taxable price deemed by the tax authorities (to be determined with reference to market price or appraisal price of real properties, and other reasonable methods)	The price deemed by the tax authorities would be VAT-exclusive.

- ▶ PN 25 also specifies the documentation requirement for DT filing and refund.
- ▶ The tax authorities shall strengthen the cooperation with local competent departments. Information related to DT filing or exemption shall be shared with the local competent departments at real time.

MOF/STA PN [2021] No. 29 (“PN 29”, i.e., PN regarding the transition of certain preferential policies after the effectiveness of the DT Law)

- ▶ PN 29 lists out certain DT preferential policies that had been issued before the effectiveness of the DT Law would continuously be implemented after 1 September 2021, e.g., DT exemption for changes of titles of land/real properties due to division of assets in a divorce, etc. (i.e., as indicated in contents of PN 29 and Attachment I of PN 29).
- ▶ PN 29 also lists out DT preferential policies and provisions that are abolished (Attachment II of PN 29) and become invalid (Attachment III of PN 29) at the same time.

Both PN 25 and 29 became effective on 1 September 2021. Relevant taxpayers are encouraged to read the DT Law and the PN 25 and 29 mentioned for more details. If in doubt, consultations with professionals are always helpful.

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

<http://www.chinatax.gov.cn/chinatax/n375/c5155444/content.html>

You can click this link to access the full content of PN 25:

<http://www.chinatax.gov.cn/chinatax/n375/c5168489/content.html>

You can click this link to access the full content of PN 29:

http://zs.mof.gov.cn/zhengcefabu/202108/t20210830_3749103.htm

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

http://www.gov.cn/zhengce/zhengceku/2021-07/08/content_5623279.htm

▶ **PN regarding certain matters related to the collection and administration of City Construction Tax (CCT) (STA PN [2021] No. 26)**

Synopsis

In order to cope with the CCT Law of the People's Republic of China (hereinafter referred to as the "CCT Law") which became effective on 1 September 2021, the STA released STA PN [2021] No. 26 ("PN 26") on 31 August 2021 to specify certain matters related to the collection and administration of CCT.

Key features are as follows:

▶ PN 26 reiterates the tax basis for CCT as follows:

CCT tax basis for the period = [VAT calculated and to be paid by a taxpayer according to the relevant tax regulations¹ + The amount of VAT exemption and credit (增值税免抵税额)² - VAT directly exempted³ - Refund of input VAT credits brought forward from previous periods (留抵退税额)] + [Consumption Tax (CT) calculated and to be paid by a taxpayer according to the relevant tax regulations¹ - CT directly exempted³]

- ▶ The "refund of input VAT credits brought forward from previous periods" (hereinafter referred to as the "input VAT refund") refers to refund of input VAT credits brought forward from previous periods that have already been refunded to a taxpayer according to the prevailing VAT rules, and this deduction shall only be allowed when VAT was calculated under the general calculation method (i.e., not applicable to simplified calculation method). The exceeded amount of input VAT refund that cannot be fully deducted for CCT calculation in the current period (i.e., the tax basis related to VAT cannot be negative as laid out in the above formula and VAT directly exempted has the priority to be first deducted) can be carried forward to the following filing periods. Furthermore, the exceeded amount of input VAT refund brought forward may be deducted by small-scale VAT taxpayers for correction or filing of CCT based on their underpaid VAT that should have been calculated under the VAT general calculation method.
- ▶ For CCT triggered by the amount of VAT exemption and credit, the taxpayer should file the relevant CCT in the next filing period where the supervising tax authority approves the amount of VAT exemption and credit.
- ▶ In case a taxpayer receives VAT and CT refunds for overpayment, the relevant CCT shall be refunded at the same time. However, in case the VAT/CT "Levy First and Rebate Later" (先征后返), "Levy First and Refund Later" (先征后退) and "Same Time Levy and Refund" (即征即退) policies apply, the relevant CCT shall not be refunded unless otherwise specified.

PN 26 also specifies other issues, such as when the CCT liabilities shall be triggered and filed, and a list of CCT related circulars and provisions that became invalid upon the effectiveness of the CCT Law (i.e., Attachment of PN 26).

Relevant taxpayers are encouraged to read the CCT Law, PN 26 as well as the related MOF/STA PN [2021] No. 27 ("PN 27", i.e., PN regarding the extension of certain preferential CCT policies) and MOF/STA PN [2021] No. 28 ("PN 28", i.e., PN regarding the extension of certain preferential CCT policies) for more information. If in doubt, consultations with professionals are always recommended.

¹ The VAT/CT amounts exclude any VAT/CT paid for importation of goods or sales of taxable labor, services and intangible assets by overseas entities and individuals.

² The amount of VAT exemption and credit (增值税免抵税额) is calculated for export VAT refund, i.e., under the "Exempt, Credit, refund" Method (免抵退税计算). It refers to VAT payable for domestic sales by a taxpayer that offset by an amount that should have been refunded by the supervising tax authority due to export tax refund. In theory, this amount is still regarded as "paid" by the taxpayer due to application of preferential VAT policies so the relevant CCT still need to be paid.

³ VAT/CT directly exempt refers to any VAT and CT exempt due to the prevailing VAT and CT preferential treatments.

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

<http://www.npc.gov.cn/npc/c30834/202008/9591538ccd764bb787e01e729fe0cbbb.shtml>

You can click this link to access the full content of PN 26:

<http://www.chinatax.gov.cn/chinatax/n365/c5168590/content.html>

You can click this link to access the full content of STA's official interpretation on PN 26:

<http://www.chinatax.gov.cn/chinatax/n810341/n810760/c5168591/content.html>

You can click this link to access the full content of PN 27:
<http://www.chinatax.gov.cn/chinatax/n365/c5168439/content.html>

You can click this link to access the full content of PN 28:
<http://www.chinatax.gov.cn/chinatax/n365/c5168440/content.html>

Business circulars

► **Overall Plan for Building a Guangdong-Macao In-depth Cooperation Zone in Hengqin**

Synopsis

In order to promote the development and opening-up of the Guangdong-Macao in-depth cooperation zone in Hengqin (hereinafter referred to as the "Cooperation Zone") and further deepening the implementation of the Outline of the Development Plan for the Guangdong-Hong Kong-Macao Greater Bay Area, on 5 September 2021, the Central Committee of the Communist Party of China and the State Council jointly issued the Overall Plan for Building a Guangdong-Macao In-depth Cooperation Zone in Hengqin (hereinafter referred to as the "Overall Plan") to support the development of the Cooperation Zone.

Some noteworthy features mentioned in the Overall Plan are as follows:

Area of the Cooperation Zone

The boundary between Hengqin and the Macao Special Administrative Region is set as "Line One"; the boundary between Hengqin and other areas within the customs territory of the People's Republic of China is set as "Line Two". The area of the Cooperation Zone is the customs supervision area between Line One and Line Two of Hengqin Island, with a total area of approximately 106 square kilometers.

New industries

Focus on the development of new industries that will promote Macao's economic diversification, including scientific and technological research and development, high-end manufacturing, traditional Chinese medicine, culture, tourism, conventions and exhibitions, trade, modern finance, etc.

Preferential tax policies

- Enterprises of qualified industries in the Cooperation Zone will be eligible for a reduced Corporate Income Tax (CIT) rate of 15%, and all industries conducive to Macao's economic diversification will be included in the scope of the policy.
- Enterprises are allowed to claim one-off deduction, accelerated depreciation or amortization for qualified capital expenditures incurred in the current period.
- Income derived from incremental outbound direct investment of tourism, modern service and high-tech enterprises that are established in the Cooperation Zone shall be exempted from CIT.
- For domestic and overseas high-end talents and urgently needed talents working in the Cooperation Zone, the part of the Individual Income Tax (IIT) burden exceeding 15% shall be exempted. IIT imposed on Macao residents working in Hengqin that exceeds the tax burden in Macao will also be exempted.

Special customs policies

- Customs duties shall be exempted or bonded for goods and commodities entering the cooperative zone through Line One, unless otherwise provided.
- Goods and commodities entering the cooperative zone through Line Two will be regarded as exports and the rules on the refund of VAT for export and consumption tax will apply. Where applicable, export duties will be levied.

- ▶ Duty-free (bonded) goods and commodities entering the mainland through Line Two shall go through customs formalities and be levied duties and import-level taxes in accordance with the relevant regulations.
- ▶ Goods and commodities entering and exiting through Line One shall continue to be subject to the administration of record filing.
- ▶ For goods processed by enterprises in the Cooperation Zone without imported materials or if processed with imported materials, the value added by the processing is or exceeds 30%, import duty shall be exempted when entering the mainland through Line Two.

High-level opening-up

- ▶ Actively implement cooperative inspection and one-time clearance at Line One and not impose restrictions on the entry and exit of personnel at Line Two.
- ▶ Formulate and introduce special measures to relax market access in the Cooperation Zone and implement market access commitment mechanism.

We have issued a WeChat news article (in Chinese) on 8 September 2021 setting out extensive discussion on the Overall Plan. 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 its full content.

Relevant enterprises and individuals are advised to read the Overall Plan for greater details 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 the Overall Plan:

http://www.gov.cn/zhengce/2021-09/05/content_5635547.htm

▶ **Notice regarding certain measures for promoting the reform and innovation of trade and investment facilitation in the Pilot Free Trade Zones (PFTZs) (Guofa [2021] No. 12)**

Synopsis

On 2 August 2021, the State Council released Guofa [2021] No. 12 (hereinafter referred to as “Circular 12”) to introduce certain measures for promoting the reform and innovation of trade and investment facilitation in PFTZs.

Key features of Circular 12 are as follows:

Enhance the opening-up to the investment from Hong Kong and Macao

Under the framework of Mainland-Hongkong and Mainland-Macao Closer Economic Partnership Arrangement (CEPA), the authority of approval for service providers from Hong Kong and Macao to establish travel agencies in the PFTZs will be delegated to the PFTZs from provincial tourism authorities.

Promote the innovation of import trade

Support the cultivation of import trade promotion innovation demonstration zones where the PFTZs are located, comprehensively utilize methods such as improving facilitation, innovating trade models and improving public services to promote the innovation of regulatory system, business model and supporting services for imports.

Stimulate the potential of new trade models

Support the development of offshore trade in the PFTZs, support banks to provide high-quality financial services for enterprises to carry out real and compliant offshore trade business and improve the facilitation of trade settlement.

Improve the import facilitation of pharmaceutical products

Allow qualified PFTZs to carry out cross-border e-commerce retail imports of certain drugs and medical devices and support qualified PFTZs to add ports for the first-time import of drugs and biological products.

Accelerate to allow overseas traders to participate in futures trading

Strengthen the construction of the existing international trading platforms for futures products in the PFTZs and improve the opening-up of the commodity futures market. Under the premise of controllable risk, optimize the account opening, trading, settlement and funding in respect of foreign exchange administration.

Pilot intellectual property (IP) securitization

Build underlying IP assets and explore the model of IP securitization in qualifying PFTZs.

Improve the judicial review of arbitration

Clarify the application of law involved in judicial review of arbitration made by the agencies established by overseas arbitration institutions in the PFTZs. Provide enterprises in the PFTZs with full-chain commercial legal services to achieve "prevent in advance, mediate in the event and resolve afterwards".

Enterprises conducting business activities in the PFTZs are advised to read Circular 12 for details of the reform and innovation measures. If in doubt, consultations with professionals are always recommended.

You can click this link to access the full content of Circular 12:

http://www.gov.cn/zhengce/content/2021-09/03/content_5635110.htm

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

- ▶ **Notice regarding the tax policies for imported exhibits sold during the period of the China International Fair for Trade in Services (Caiguanshui [2021] No. 42)**
http://gss.mof.gov.cn/gzdt/zhengcefabu/202109/t20210901_3749915.htm
- ▶ **Notice regarding the plan for promoting the employment during the 14th Five-year Plan period (Guofa [2021] No. 14)**
http://www.gov.cn/zhengce/content/2021-08/27/content_5633714.htm
- ▶ **Notice regarding further enhancing the registration and administration of off-campus training institutions (Minbanhan [2021] No. 55)**
http://www.gov.cn/zhengce/zhengceku/2021-08/27/content_5633751.htm
- ▶ **Notice regarding the "Implementation Plan of the National Medical Products Administration on Implementing the Reform of 'Separating Permits from Business Licenses' and Further Stimulating the Vitality of Market Entities"**
<https://www.nmpa.gov.cn/directory/web/nmpa/xxgk/fgwj/gzwj/gzwjyp/20210830104947103.html>
- ▶ **Notice regarding the recognition and assessment of the 2021 twenty-eighth batch of the national enterprise technology centers (Fagaibangaoji [2021] No. 663)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz//202108/t20210830_1295258.html
- ▶ **Notice regarding deepening the reform of "Separating Permits from Business Licenses" and further stimulating the vitality of market entities in the transportation sector (Jiaofafa [2021] No. 78)**
https://xxgk.mot.gov.cn/2020/jigou/fgs/202108/t20210831_3617209.html
- ▶ **Notice regarding the "Measures for Further Promoting the Development of Cultural and Creative Products of Cultural Relics Entities" (Wenlvziyuanfa [2021] No. 85)**
http://www.gov.cn/zhengce/zhengceku/2021-08/31/content_5634552.htm
- ▶ **Notice regarding the "Deepening the Pilot Price Reform of Healthcare Services" (Yibaofa [2021] No. 41)**
http://www.nhsa.gov.cn/art/2021/8/31/art_37_5896.html
- ▶ **PN regarding public opinions consultation on the "Decision on Revising the 'E-commerce Law of the People's Republic of China' (Discussion Draft)"**
http://www.samr.gov.cn/hd/zjdc/202108/t20210831_334252.html

- ▶ **Notice regarding the “Administrative Measures for Online Performance Brokerage Agencies” (Wenlvshichangfa [2021] No. 91)**
http://www.gov.cn/zhengce/zhengceku/2021-09/02/content_5635020.htm
- ▶ **Notice regarding further enhancing the administration of entertainment shows and personnel (Guangdianbanfa [2021] No. 267)**
http://www.gov.cn/zhengce/zhengceku/2021-09/02/content_5635019.htm
- ▶ **Notice regarding promoting the work of carbon peak and carbon neutrality in National Eco-industrial Demonstration Parks (Kecaihan [2021] No. 159)**
http://www.mee.gov.cn/xxgk2018/xxgk/sthjbs/202109/t20210901_884575.html



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