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# 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 further continuing to accelerate the implementation of the refund policy of input Value-added Tax (VAT) credits brought forward from previous periods (MOF/STA PN [2022] No. 19)**
- ▶ **Notice regarding strictly cracking down criminal offense of defrauding VAT credit refunds (Shuizongjichafa [2022] No. 42)**

## Synopsis

To further accelerate the release of benefits from the refund policy of input VAT credits brought forward from previous periods, and subsequent to MOF/STA PN [2022] No. 14 ("PN 14", i.e., PN regarding further enhancing the implementation of the refund policy of input VAT credits brought forward from the previous periods) and MOF/STA PN [2022] No. 17 ("PN 17", i.e., PN regarding further accelerating the implementation of the refund policy of input VAT credits brought forward from the previous periods), the Ministry of Finance (MOF) and State Taxation Administration (STA) jointly released MOF/STA PN [2022] No. 19 ("PN 19") on 17 May 2022 to further accelerate the refund process of large-sized enterprises engaging in manufacturing industry and etc.<sup>1</sup>

In this respect, for your easy reference, we have summarized the arrangements for the refund of accumulated input VAT credits for relevant taxpayers in the table below:

Types of taxpayers	Arrangements for the refund as prescribed in PNs 14 and 17	Arrangements to further accelerate the refund as prescribed in PN 19
Micro-sized enterprises	Upon receiving applications, the supervising tax authorities shall strive to arrange refund of accumulated input VAT credits by 30 April 2022.	N/A
Small-sized enterprises	Upon receiving applications, the supervising tax authorities shall strive to arrange refund of accumulated input VAT credits by 30 June 2022.	N/A
Medium-sized enterprises engaging in manufacturing industry and etc. <sup>1</sup>	Such qualified medium-sized enterprises may apply for refund of accumulated input VAT credits in a lump-sum in the VAT filing to be completed in May 2022 (instead of July 2022) or later.  Upon receiving applications, the authorities shall strive to arrange the refund by 30 June 2022.	N/A
Large-sized enterprises engaging in manufacturing industry and etc. <sup>1</sup>	May apply for tax refund of accumulated input VAT credits in a lump-sum in the VAT filing to be completed in October 2022 or later.	Such qualified large-sized enterprises may apply for refund of accumulated input VAT credits in a lump-sum in the VAT filing to be completed in June 2022 (instead of October 2022) or later.  Upon receiving applications lodged by such taxpayers, the authorities shall strive to arrange the refund by 30 June 2022.

On the other hand, on 17 May 2022, the STA, General Administration of Customs and other four central government authorities jointly released Shuizongjichafa [2022] No. 42 (“Circular 42”) which aims to crack down criminal offense of defrauding VAT credit refunds.

It is worth noting that, since the launch of refund policies of input VAT credits brought forward from previous periods, certain tax authorities at the local level have already exposed cases of certain taxpayers that have committed tax frauds to claim the tax refund by overstating the amount of creditable input VAT, delaying the recognition of taxable income or false issuance of VAT invoices to related parties that are eligible for the refund policies, etc. It is also important to note that certain tax authorities at the local level have also released local notices in this regard. For instance, according to the notice issued by Hebei Provincial Tax Service, STA, a lenient approach shall be available if such taxpayers who committed a tax fraud in this regard would come forward before a prescribed deadline.

Relevant taxpayers are advised to read the abovementioned circulars for details and fully leverage the benefits offered. If in doubt, timely consultations with professionals are highly recommended.

<sup>1</sup> “Enterprises engaging in manufacturing industry and etc.” refers to taxpayers that derive over 50% of VAT taxable income from six industries including manufacturing, scientific research and technical services, etc. as categorized in the Industrial Classification and Codes for National Economic Activities.

You can click this link to access the full content of PN 19:

<http://www.chinatax.gov.cn/chinatax/n359/c5175401/content.html>

You can click this link to access the full content of Circular 42:

<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5175454/content.html>

You can click this link to access the full content of PN 14:

<http://www.chinatax.gov.cn/chinatax/n359/c5173759/content.html>

You can click this link to access the full content of PN 17:

<http://www.chinatax.gov.cn/chinatax/n359/c5174689/content.html>

You can click this link to access the full content of the local notice issued by Hebei Provincial Tax Service, STA:

[http://hebei.chinatax.gov.cn/hbsw/xgk/tzgg/202205/t20220520\\_3108290.html](http://hebei.chinatax.gov.cn/hbsw/xgk/tzgg/202205/t20220520_3108290.html)

► **Notice issued by the Shenzhen Customs and Shenzhen Municipal Tax Service, STA regarding matters related to implementing the collaborative management of transfer pricing of related party imported goods (Shengguanshui [2022] No. 62)**

### **Synopsis**

To optimize the business environment, reduce taxpayers' compliance costs, and improve certainty and management efficiency, on 18 May 2022, the Shenzhen Customs and Shenzhen Municipal Tax Service, STA clarified certain matters related to implementing the collaborative management of transfer pricing of related party imported goods via Shengguanshui [2022] No.62 ("Circular 62").

### **Collaborative management of transfer pricing of related imported goods**

According to Circular 62, the term "collaborative management of transfer pricing of related party imported goods" (hereinafter referred to as "collaborative management of transfer pricing") refers to a joint assessment of the price of related party imported goods conducted by the Shenzhen Customs and Shenzhen Municipal Tax Service, STA. After reaching an agreement, the Shenzhen Customs and Shenzhen Municipal Tax Service, STA will jointly sign the "Memorandum of Collaborative Management of Transfer Pricing of Related Party Imported Goods" (hereinafter referred to as the "Memorandum of Collaborative Management", see Annex 1 of Circular 62 for the format) with the enterprise, and make customs advance rulings and tax advance pricing arrangements (APA).

### **Application and assessment**

Where an enterprise applies for collaborative management of transfer pricing, it shall submit the "Application Form for the Collaborative Management of Transfer Pricing of Related Party Imported Goods" (see Annex 2 of Circular 62 for the format), "Customs Advance Rulings Application (Price)", "Tax APA Preliminary Meeting Application" and relevant materials to the Shenzhen Customs and Shenzhen Municipal Tax Service, STA at the same time. The Shenzhen Customs and Shenzhen Municipal Tax Service, STA shall start the joint assessment within 15 days from the date of acceptance and negotiate with the enterprise on the related import price.

### **Signing and implementation of the memorandum**

Where the Shenzhen Customs and Shenzhen Municipal Tax Service, STA reach a consensus through negotiation, they shall sign a "Memorandum of Collaborative Management" with the enterprise. At the same time, the Shenzhen Customs shall issue an advance ruling on price, and the Shenzhen Municipal Tax Service, STA shall sign an APA with the enterprise. Where an agreement cannot be reached, the collaborative management procedure shall be terminated, and the acceptance authority shall notify the enterprise in writing.

Enterprises shall submit paper and electronic annual reports on the implementation of collaborative management of transfer pricing to the Shenzhen Customs and Shenzhen Municipal Tax Service, STA within 6 months after the end of each year during which the "Memorandum of Collaborative Management" applies. The annual report shall state the operation of the enterprise and the implementation of collaborative management during the reporting period. Enterprises can apply to the Shenzhen Customs and Shenzhen Municipal Tax Service, STA for renewal within 90 days before expiration of the memorandum.

## Impact on enterprises

The new collaborative management mechanism provides the first institutional standards of transfer pricing to the customs and it is also the first-time formal management cooperation between the customs and the tax authority in the field of transfer pricing, which is of great significance. The main impacts on enterprises are summarized as follows:

- ▶ The dual requirements of “tax” and “customs” for enterprises’ transfer pricing compliance are formulated.
- ▶ Both the assessment and confirmation of the customs and tax authority can be completed through one-time record filing, and therefore the predictability and certainty of enterprises’ tax compliance are improved.
- ▶ The collaborative management mechanism provides a clearer compliance approach for the determination, implementation and subsequent adjustment of transfer pricing of multinational enterprises.

Circular 62 became effective on 18 May 2022. The implementation of this collaborative management mechanism will help improve the compliance of cross-border related party transactions and tax certainty. Relevant enterprises are advised to make a pre-assessment and a detailed plan in advance if they wish to pursue for such arrangement. If in doubt, consultations with professionals are always recommended.

We have issued a WeChat news article (in Chinese) on 20 May 2022 setting out extensive discussion on Circular 62. 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 contents.

You can click this link to access the full content of Circular 62:

[http://shenzhen.customs.gov.cn/shenzhen\\_customs/zfxxgk15/2966748/tzgg23/tztg79/4350171/index.html](http://shenzhen.customs.gov.cn/shenzhen_customs/zfxxgk15/2966748/tzgg23/tztg79/4350171/index.html)

- ▶ **Notice regarding matters related to the recognition of research and development (R&D) institutions eligible for import-level tax policies for supporting technology innovation in Shanghai Pudong New Area (Caiguanshui [2022] No. 7)**

### Synopsis

On 30 April 2022, the MOF, STA and other four central government authorities jointly issued Caiguanshui [2022] No. 7 (“Circular 7”) to announce the adjustment of recognition authorities of R&D institutions eligible for import-level tax policies<sup>2</sup> for supporting technology innovation in Shanghai Pudong New Area. The details are as follows:

According to Caiguanshui [2021] No. 24 (“Circular 24”, i.e., Notice regarding the administrative measures of the import-level tax policies for supporting technology innovation during the 14th Five-Year Plan period), certain R&D institutions in Pudong New Area that should originally be recognized by relevant municipal-level authorities of Shanghai are adjusted to be recognized by relevant authorities of Pudong New Area. The recognition standards will remain unchanged. The identification result should be marked with batches and be reported to relevant municipal-level authorities of Shanghai by the identification authorities of Pudong New Area. The first batch of recognized R&D institutions can start to enjoy the import-level tax policies from 1 January 2021.

R&D institutions in Pudong New Area are advised to read Circulars 7 and 24 for details and make corresponding adjustments according to new application requirements if needed. If in doubt, consultations with professionals are always recommended.

<sup>2</sup> According to Caiguanshui [2021] No. 23 (“Circular 23”, i.e., Notice regarding the import-level tax policies for supporting technology innovation during the 14th Five-Year Plan period), importation of production materials (that cannot be produced or meet the requirements domestically) for science research, technological development and education purpose by qualifying R&D institutions shall be exempt from import-level Customs Duty, VAT and Consumption Tax.

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

[http://gss.mof.gov.cn/gzdt/zhengcefabu/202205/t20220512\\_3810109.htm](http://gss.mof.gov.cn/gzdt/zhengcefabu/202205/t20220512_3810109.htm)

You can click this link to access the full content of Circular 24:  
[http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210427\\_3693272.htm](http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210427_3693272.htm)

You can click this link to access the full content of Circular 23:  
[http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210420\\_3688785.htm](http://gss.mof.gov.cn/gzdt/zhengcefabu/202104/t20210420_3688785.htm)

## Business circular

- ▶ **Notice regarding launching the pilot program of “Replacing Approval with Record-filing” for the recognition of 2022 High and New Technology Enterprises (HNTes) in Beijing (Jingkegaofa [2022] No. 117)**

### Synopsis

On 19 May 2022, Beijing Municipal Science and Technology Commission, Administrative Commission of Zhongguancun Science Park, Beijing Municipal Finance Bureau and Beijing Municipal Tax Service, STA jointly released Jingkegaofa [2022] No. 117 (“Circular 117”) to launch the pilot program of “Replacing Approval with Record-filing” for the recognition of 2022 HNTes in Beijing (hereinafter referred to as the “Beijing Pilot”).

Under general practice, applicants for HNTe recognition shall go through a long process of self-evaluation, registration and submission of documents, assessment by the filed experts, review and recognition, and public announcements, etc. Whereas, under the Beijing Pilot which was first launched in 2021 as the sole pilot in China, enterprises registered in Beijing that meet the criteria listed in Circular 117 may apply for the HNTe recognition through a simplified and facilitated “record-filing” scheme.

Notably, one key criteria for the recognition of HNTe, i.e., “at least 60% of the total R&D expenses should be incurred in Mainland China” as prescribed in Guokefahuo [2016] No. 32 (“Circular 32”, i.e., Notice regarding the revised “Administrative Measures on HNTe Recognition”) has been further loosened under the Beijing Pilot as “at least 50% of the total R&D expenses should be incurred in Mainland China”. Furthermore, the recognition under the Beijing Pilot shall be completed online and the submission of certain supporting documentation, e.g., the business license, certificates for intellectual properties, labor contracts for employees, etc. shall be waived as these data can be obtained easily by the authority through the big data.

To fully leverage the relevant tax preferences for HNTes, relevant parties are encouraged to read Circular 117 for more details and lodge application timely (on or before 15 November 2022) by logging onto [www.innocom.gov.cn](http://www.innocom.gov.cn).

You can click this link to access the full content of Circular 117:  
[http://kw.beijing.gov.cn/art/2022/5/19/art\\_736\\_629634.html](http://kw.beijing.gov.cn/art/2022/5/19/art_736_629634.html)

You can click this link to access the full content of Circular 32:  
[http://www.gov.cn/gongbao/content/2016/content\\_5076985.htm](http://www.gov.cn/gongbao/content/2016/content_5076985.htm)

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

- ▶ **Notice regarding administrative measures for entrusted investment of insurance funds (Yinbaojiangui [2022] No. 9)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1051064>
- ▶ **Notice regarding insurance funds investing in financial products (Yinbaojiangui [2022] No. 7)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1051063>
- ▶ **Notice regarding matters related to adjusting differentiated housing credit policies (Yinfa [2022] No. 115)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1051458>



- ▶ **Guiding opinions on banking and insurance industries supporting urban construction and governance (Yinbaojianfa [2022] No. 10)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1051199&itemId=928&generaltype=0>
- ▶ **Notice regarding the action plan for jointly promoting the integrated innovation of large, medium and small-sized enterprises (2022-2025) (Gongxinbulianqiye [2022] No. 54)**  
[https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2022/art\\_59581adbdc7c4bf2bbdcd8ccf6a260f3.html](https://www.miit.gov.cn/zwgk/zcwj/wjfb/tz/art/2022/art_59581adbdc7c4bf2bbdcd8ccf6a260f3.html)
- ▶ **Notice regarding the work plan on the pilot program of patent open license (Guozhibanhanyunzi [2022] No. 448)**  
[http://www.gov.cn/zhengce/zhengceku/2022-05/18/content\\_5690954.htm](http://www.gov.cn/zhengce/zhengceku/2022-05/18/content_5690954.htm)
- ▶ **Decisions on amending the “Administrative Measures for Entertainment Places” (MCT Order [2022] No. 10)**  
[http://zwgk.mct.gov.cn/zfxxgkml/zcfg/bmgz/202205/t20220517\\_933042.html](http://zwgk.mct.gov.cn/zfxxgkml/zcfg/bmgz/202205/t20220517_933042.html)
- ▶ **Decisions on amending the “Implementation Rules of the Administrative Regulations on Commercial Performances” (MCT Order [2022] No. 9)**  
[http://zwgk.mct.gov.cn/zfxxgkml/zcfg/bmgz/202205/t20220517\\_933037.html](http://zwgk.mct.gov.cn/zfxxgkml/zcfg/bmgz/202205/t20220517_933037.html)
- ▶ **Notice regarding the administrative measures on commercial banks implementing the expected credit loss method (Yinbaojiangui [2022] No. 10)**  
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1052071>
- ▶ **2022 Regulations Formulation Plan of the Ministry of Industry and Information Technology**  
[https://www.miit.gov.cn/xwdt/qxd/sjdt/art/2022/art\\_3ef3e1ea3c5a47158ad64bd2204316d3.html](https://www.miit.gov.cn/xwdt/qxd/sjdt/art/2022/art_3ef3e1ea3c5a47158ad64bd2204316d3.html)
- ▶ **Measures of the State Administration of Foreign Exchange on Administrative Penalty (SAFE PN [2022] No. 1)**  
<http://www.safe.gov.cn/safe/2022/0519/20972.html>
- ▶ **PN regarding the converted version of the list of product specific rules of origin under the Closer Economic Partnership Arrangement (CEPA) with Hongkong and Macao (GAC PN [2022] No 39)**  
<http://www.customs.gov.cn/customs/302249/2480148/4344754/index.html>
- ▶ **Notice regarding the “2022 Key Tasks of Customs Government Information Disclosure” (Shubanhuan [2022] No. 20)**  
<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/4347449/index.html>



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