

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

- ▶ **Notice regarding the “Implementation Plan of the Guangdong-Macao In-Depth Cooperation Zone in Hengqin (Hengqin) on the Preferential Individual Income Tax (IIT) Policies for Macao Residents”**

Synopsis

On 29 June 2022, the Hengqin branch of Guangdong Provincial Tax Services, State Taxation Administration (STA) and Hengqin Finance Bureau jointly released the Implementation Plan of Hengqin on the Preferential IIT Policies for Macao Residents (hereinafter referred to as the “Implementation Plan”) to specify the internal arrangements for tax services and risk management of the relevant local authorities in this regard.



To provide a clearer picture for enterprises/individuals regarding the prevailing regional preferential IIT policies for eligible individuals (such as Hengqin, Hainan, the Guangdong-Hong Kong-Macao Greater Bay Area, etc.) and preferential IIT policies to be enacted in Nansha, we have briefly covered these regional policies in the table below (please click each area to access the relevant policies):

Direct IIT exemption		
Areas	Eligible Individuals	Applicable IIT policies ¹
Hengqin (Effected from 1 January 2021 to 31 December 2025)	Domestic and overseas high-end or urgently needed talents ² working in Hengqin	Their IIT burden exceeding 15% shall be exempted.
	Macao residents working in Hengqin	Their IIT burden in Hengqin exceeding their IIT burden that would have been arisen in Macao shall be exempted.
Hainan Free Trade Port (FTP) (Effected from 1 January 2020 to 31 December 2024)	Domestic and overseas high-end or urgently needed talents ² working in Hainan FTP	Their IIT burden exceeding 15% shall be exempted.
Nansha of Guangzhou (Effective date and detailed rules are not yet released)	Hong Kong/Macao residents working in Nansha	Their IIT burden exceeding their IIT burden that would have been arisen in Hong Kong/Macao shall be exempted.
IIT preference for subsidies ³		
Areas	Eligible Individuals	Applicable IIT policies ¹
Specific areas of Beijing (including the core area of the capital, Beijing's sub-center, etc.) (Effected from 1 January 2020)	Overseas high-end talents ²	Financial subsidies shall be provided to cover their IIT burden exceeding 15%.
The nine Mainland cities of the Guangdong-Hong Kong-Macao Greater Bay Area⁴ (Effected from 1 January 2019 to 31 December 2023)	Overseas high-end or urgently needed talents ² who work in the Greater Bay Area	Financial subsidies shall be provided to cover the difference in IIT burden between the Mainland and Hong Kong for the eligible individuals, and the financial subsidies shall be exempt from IIT.
Lingang New Area of Shanghai (Effective date and detailed rules are not yet released)	Overseas talents	As announced by the State Council, a subsidy policy for overseas talents to cover the difference of their IIT burden between the Mainland and overseas shall be studied and implemented.
Fujian Pingtan Comprehensive Pilot Zone (Effective from 1 January 2013 to 31 December 2025)	Taiwan residents	Financial subsidies shall be provided to cover the difference in IIT burden between the Mainland and Taiwan for the eligible individuals, and the financial subsidies shall be exempt from IIT.

¹ Generally, the withholding agents shall withhold the IIT payable in full during the IIT provisional filings, and the individuals shall apply for exemption in the annual IIT filing to be completed in the following year or financial subsidies shall be applied by employers/individuals in the prescribed timeframe in the following year.

² The criteria for high-end or urgently needed talents of each location are varied. The relevant employers/individuals should check the relevant local rules/guidance in detail.

³ It is worth noting that certain local governments may have set a cap for the financial subsidies, e.g., for the application of financial subsidies for 2020, Shenzhen has set the maximum amount of subsidy at RMB5 million per person.

⁴ The nine Mainland cities refer to the municipalities of Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen and Zhaoqing in Guangdong Province.

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

http://www.hengqin.gov.cn/macao_zh_hans/zwgk/tzgg/content/post_3310899.html



▶ **Public notice (PN) regarding tax policies applicable to the inclusion of exchange traded fund (ETF) in the trading interconnection mechanism between Mainland China and Hong Kong stock markets (MOF/STA/CSRC PN [2022] No. 24)**

Synopsis

On 30 June 2022, the Ministry of Finance (MOF), STA and China Securities Regulatory Commission (CSRC) jointly released MOF/STA/CSRC PN [2022] No. 24 (“PN 24”) to clarify the applicable tax policies after ETF being included in the trading interconnection mechanism between Mainland China and Hong Kong stock markets as follows:

Key policies	Circulars
<p><u>Income Taxes for Mainland China investors</u></p> <ul style="list-style-type: none"> ▶ For Mainland China individual investors, their gains realized from trading of Hong Kong securities investment funds via the trading interconnection mechanism are temporarily exempt from IIT until 31 December 2022. ▶ For Mainland China corporate investors, their gains derived from trading of Hong Kong securities investment funds via the trading interconnection mechanism are subject to Corporate Income Tax (CIT) according to the prevailing CIT law. ▶ Mainland China individual investors are subject to IIT at 20% with respect to distributions received from Hong Kong securities investment funds via the trading interconnection mechanism. ▶ Distributions received by Mainland China corporate investors from Hong Kong securities investment funds via the trading interconnection mechanism are subject to CIT according to the prevailing CIT law. 	<ul style="list-style-type: none"> ▶ Caishui [2015] No. 125 (“Circular 125”, i.e., Notice regarding tax policies related to Mainland-Hong Kong mutual recognition of funds) ▶ MOF/STA/CSRC PN [2019] No. 93 (“PN 93”, PN regarding the extension of IIT policies related to the Shanghai/Shenzhen-Hong Kong Stock Connect Program and the Mainland-Hong Kong mutual recognition of funds) ▶ Caishui [2016] No. 36 (“Circular 36”, Notice regarding the final stage of the VAT pilot arrangements)
<p><u>Income Taxes for Hong Kong investors</u></p> <ul style="list-style-type: none"> ▶ For Hong Kong investors (corporates and individuals), their gains realized from trading of Mainland China securities investment funds via the trading interconnection mechanism are temporarily exempt from China Income Taxes. ▶ Distributions received by Hong Kong investors (corporates and individuals) from Mainland China securities investment funds via the trading interconnection mechanism are subject to withholding tax: <ul style="list-style-type: none"> ▶ For dividends and distributions from shares of Mainland China listed companies, Hong Kong investors shall be subject to withholding tax at 10%; ▶ For interests from bonds, Hong Kong investors shall be subject to withholding tax at 7%. <p>The abovementioned withholding tax shall be withheld by the Mainland China listed companies distributing the dividends or the Mainland China companies issuing the bonds while the dividends or interests are distributed to the Mainland China securities investment funds.</p>	
<p><u>Value-added Tax (VAT) for Mainland China/Hong Kong investors</u></p> <ul style="list-style-type: none"> ▶ For Hong Kong investors (corporates and individuals), their gains realized from trading of Mainland China securities investment funds via the trading interconnection mechanism are temporarily exempt from VAT. ▶ For Mainland China investors (corporates and individuals), their gains realized from trading of Hong Kong securities investment funds via the trading interconnection mechanism are temporarily exempt from VAT according to the prevailing tax rules. 	
<p><u>Stamp Duty (SD) for Mainland China/Hong Kong investors</u></p> <ul style="list-style-type: none"> ▶ Trading, inheritance and donation of Mainland securities investment funds via the trading interconnection mechanism by Hong Kong investors are subject to SD according to the prevailing SD rules from 1 July 2022⁵. ▶ The SD treatments for trading, inheritance and donation of Hong Kong securities investment funds via the trading interconnection mechanism by Mainland China investors shall be implemented according to the prevailing SD rules of the Hong Kong Special Administrative Region. 	

It is worth noting that the China Securities Depository and Clearing Corporation Limited (CSDC) shall be responsible for withholding and remitting IIT on Mainland China investors' income that are derived from the distribution of Hong Kong funds.

Additionally, in respect of the arrangement matters related to including ETF in the trading interconnection mechanism, please make reference to CSRC PN [2022] No. 39 ("PN 39", i.e., PN regarding arrangements for including ETF into trading interconnection mechanism).

Relevant parties are advised to read the abovementioned circulars for greater details and observe the regulations. If in doubt, consultations with professionals are always recommended.

⁵ According to MOF/STA PN [2022] No. 23 ("PN 23", i.e., PN regarding matters related to preferential policy coordination after the implementation of the SD Law) issued by the MOF and STA on 27 June 2022, SD temporary exemption for trading, inheritance and donation of Mainland China securities investment funds via the trading interconnection mechanism by Hong Kong investors became invalid from 1 July 2022.

You can click this link to access the full content of PN 24:
http://szs.mof.gov.cn/zhengcefabu/202207/t20220701_3824283.htm

You can click this link to access the full content of Circular 125:
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c1523569/content.html>

You can click this link to access the full content of Circular 36:
<http://www.chinatax.gov.cn/chinatax/n361/c2138502/content.html>

You can click this link to access the full content of PN 93:
<http://www.chinatax.gov.cn/chinatax/n363/c5140559/content.html>

You can click this link to access the full content of PN 39:
<http://www.csrc.gov.cn/csrc/c101954/c3876121/content.shtml>

Business circular

► 2022 Regulatory Legislative Plan of the Ministry of Commerce (MOFCOM)

Synopsis

To promote the high-quality development of commerce, the MOFCOM issued the "2022 Regulatory Legislative Plan of the MOFCOM" (hereinafter referred to as the "Plan") on 6 July 2022, announcing the specific arrangements of the regulatory legislative plan for 2022.

According to the Plan, it is worth noting that the "Administrative Measures for the Strategic Investment by Foreign Investors in Listed Companies" (hereinafter referred to as the "Administrative Measures") will be revised in 2022 to further improve the foreign investment system.

With the deepening of the reform and opening-up, certain provisions as prescribed in the prevailing Administrative Measures announced in 2005, such as the high threshold for foreign investment and single investment mode, etc. no longer adapt to the prevailing foreign investment mechanism. In this respect, it is expected that the amendments shall further relax the restrictions on the strategic investment by foreign investors so as to better commensurate with the Foreign Investment Law.

We will keep an eye on any further developments, please stay tuned.

You can click this link to access the full content of the Plan:
<http://www.mofcom.gov.cn/article/zcfb/zczh/202207/20220703331409.shtml>

► PN regarding matters related to the voluntary disclosure of tax-related violations (GAC PN [2022] No. 54)

Synopsis

To further maintain stability and improve quality of foreign trade, on 30 June 2022, the General Administration of Customs (GAC) released GAC PN [2022] No. 54 ("PN 54") to encourage voluntary disclosure of tax-related violations by enterprises/entities engaging in import and export.

Key features of PN 54 include the follows:

Items	Details
Administrative penalization relief	<p>Import/export enterprises/entities that make voluntary disclosure of tax-related violations shall be entitled to administrative penalization relief provided that one of the following criteria is satisfied:</p> <ul style="list-style-type: none"> ▶ The enterprises/entities make voluntary disclosure to the Customs within six months from the occurrence date of the tax-related violations. ▶ The enterprises/entities make voluntary disclosure to Customs within six months to one year after the tax-related violations occurred, and the amount of underpaid tax is less than 30% of the total tax payable or less than RMB1 million.
Surcharges exemption/reduction	Where import/export enterprises/entities entitled to the afore-mentioned administrative penalization relief make voluntary disclosure to the Customs, the Customs may grant a reduction or exemption on the surcharges due to late payments.
No record in credit rating system	Where import/export enterprises/entities make voluntary disclosure and receive warning from the Customs or penalization below RMB1 million, such violation shall not be recorded in the credit rating system of the Customs.

PN 54 is effective from 1 July 2022 to 31 December 2023 and replaces GAC PN [2019] No. 161 ("PN 161", i.e., PN regarding handling matters related to voluntary disclosures of tax-related unlawful acts).

Our indirect tax team has published a new issue of Indirect Tax Alert on 4 July 2022 to discuss PN 54 in greater detail. 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 the full contents of the alert.

You can click this link to access the full content of PN 54:

http://www.customs.gov.cn/manzhouli_customs/566020/3392762/566021/4448228/index.html

You can click this link to access the full content of PN 161:

<http://www.mofcom.gov.cn/article/b/g/201911/20191102912227.shtml>

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

- ▶ **2022 Guidelines on New Combined Tax Support Policies (July 2022)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5177018/content.html>
- ▶ **PN regarding matters related to the interconnection and cooperation between Mainland China and Hong Kong interest rate swap markets**
<http://www.pbc.gov.cn/goutongjiaoliu/113456/113469/4592580/index.html>
- ▶ **Notice regarding revitalizing stock assets to expand effective investment (Fagaibantouzi [2022] No. 561)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz/202207/t20220701_1329858.html?code=&state=123
- ▶ **Notice regarding the temporary deferral of employees' basic medical insurance contribution borne by employers (Yibaofa [2022] No. 21)**
<http://www.chinatax.gov.cn/chinatax/n810341/n810825/c101434/c5177050/content.html>
- ▶ **Guidelines on Enterprise Foreign Exchange Risk Management**
<http://www.safe.gov.cn/safe/2022/0701/21156.html>
- ▶ **Administrative Measures on the China Clean Development Mechanism Fund (MOF/MEE/NDRC/MFA/MOST/MOA/CMA Order [2022] No. 111)**
http://tfs.mof.gov.cn/caizhengbuling/202207/t20220701_3824117.htm
- ▶ **Notice regarding certain measures for stimulating the circulation and boosting the consumption of automobiles (Shangxiaofeifa [2022] No. 92)**
<http://www.mofcom.gov.cn/article/zwgk/gkqztz/202207/20220703331482.shtml>
- ▶ **Measures for Security Assessment of Cross-border Data Transfer (CAC Order [2022] No. 11)**
http://www.gov.cn/zhengce/zhengceku/2022-07/08/content_5699851.htm
- ▶ **PN regarding promoting the finance guarantee of enterprise groups (GAC PN [2022] No. 56)**
<http://www.customs.gov.cn/customs/302249/2480148/4453993/index.html>

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