

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

- ▶ **The State Council executive meeting to introduce preferential tax policies supporting enterprises' investment in enhancing innovation capability**

Synopsis

On 7 September 2022, the Premier Li Keqiang chaired the State Council executive meeting (hereinafter referred to as the "meeting"), in which certain preferential policies were introduced to support employment and business startups to broaden the space of employment, help market entities emerge and grow, and foster new drivers of growth, etc.



Among these, it is important for businesses to pay attention to the time-specific preferential tax policies introduced in the meeting which are to be implemented up to the end of 2022:

- ▶ High-and-new technology enterprises (HNTEs) are allowed to claim an upfront 100% Corporate Income Tax (CIT) deduction for their expenses incurred for purchasing equipment in the fourth quarter of 2022 with an extra 100% deduction. The implementation of this policy shall be subsidized by the central and local finance.

For your easy reference, we have summarized the above preferential tax treatment for HNTEs together with the prevailing tax treatments in this regard in the table below:

The preferential tax treatment (shall be implemented up to the end of 2022)	
HNTEs	Allowed to claim <u>an upfront 100% CIT deduction</u> for their expenses incurred for purchasing equipment in the fourth quarter of 2022 <u>with an extra 100% deduction</u> .
Prevailing CIT policies	
Enterprises (nationwide) ¹	From 1 January 2018 to 31 December 2023, an enterprise may claim an <u>upfront 100% CIT deduction</u> for any newly acquired device or equipment (except for real estate or constructions) <u>if the unit value of the device or equipment does not exceed RMB5 million</u> .
Qualifying medium, small and micro-sized enterprises (nationwide) ²	From 1 January 2022 to 31 December 2022, qualifying medium, small and micro-sized enterprises purchasing equipment/devices (i.e., fixed assets other than real properties or constructions) <u>with a unit value exceeding RMB5 million</u> shall be entitled to the following accelerated depreciation policies: <ul style="list-style-type: none"> ▶ Electronic equipment: <u>an upfront 100%</u> CIT deduction is allowed. ▶ Equipment/devices except for electronic equipment: <u>an upfront 50%</u> CIT deduction is allowed and <u>the remaining 50%</u> shall be depreciated over the prescribed years of depreciation.
Enterprises of Hainan Free Trade Port ³	From 1 January 2020 to 31 December 2024, enterprises of Hainan are allowed to claim <u>an upfront 100% CIT deduction</u> for <u>fixed assets</u> (except for real estates or constructions) or <u>intangible assets with a unit value not exceeding RMB5 million</u> newly acquired through means of purchase, self-construction, or self-development.

- ▶ The super deduction ratio of research and development (R&D) expenses for all eligible enterprises that are currently allowed to claim a 175% super deduction shall be increased to 200%.

Under the current rules, except for qualifying manufacturing enterprises⁴ and technology-based small and medium-sized enterprises (TSMEs)⁵ that are eligible to claim a 200% super deduction, all other eligible enterprises⁶ (except for those engaging in tobacco manufacturing, accommodation and catering, real estate, leasing and commercial services, entertainment, and other industries to be specified by the Ministry of Finance (MOF) and State Taxation Administration (STA)) may claim a 175% super deduction.

- ▶ Enterprises may claim a super deduction on their investments contributed to scientific research institutions funds for conducting basic research.

It is anticipated that the respective government authorities shall further formulate and announce specific policies to respond to the meeting. Enterprises with intention to purchase fixed assets, or further invest in R&D in the fourth quarter before end of this year should stay alert to the detailed tax policies to be announced. We will keep an eye on any further developments and advise you accordingly; please stay tuned.

We have issued a WeChat news article (in Chinese) to discuss the abovementioned preferential tax policies 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 or click the weblink below.

¹ Please refer to Caishui [2018] No. 54 (“Circular 54”, i.e., Notice regarding Corporate Income Tax policies on deductions for equipment and devices) and MOF/STA PN [2021] No. 6 (“PN 6”, i.e., Public notice (PN) regarding extending the implementation period of certain preferential tax policies) for details.

² Please refer to MOF/STA PN [2022] No. 12 (“PN 12”, i.e., PN regarding policies on CIT deductions for equipment/devices purchases of medium, small and micro-sized enterprises) for details.

³ Please refer to Caishui [2020] No. 31 (“Circular 31”, i.e., Notice regarding the CIT preferential policies for enterprises in the Hainan Free Trade Port) for details.

⁴ Manufacturing enterprises refer to enterprises that derive over 50% of annual operating income from manufacturing industries as prescribed in the prevailing Industrial Classification and Codes for National Economic Activities (GB/T 4574-2017).

⁵ Please refer to MOF/STA/MOST PN [2022] No. 16 (“PN 16”, i.e., PN regarding further raising the super deduction ratio of R&D expenses of TSMES) for details.

⁶ Please refer 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) for details.

You can click this link to access the official news of the meeting:

http://www.gov.cn/premier/2022-09/08/content_5709067.htm

You can click this link to access the full contents of the WeChat article:

<https://mp.weixin.qq.com/s/csY6HJ7ImUK8k7GWX0wdBg>

You can click this link to access the full contents of Circular 54:

http://www.gov.cn/zhengce/zhengceku/2018-12/31/content_5439626.htm

You can click this link to access the full contents of PN 6:

http://www.gov.cn/zhengce/zhengceku/2021-03/23/content_5595076.htm

You can click this link to access the full contents of PN 12:

https://www.mct.gov.cn/preview/special/9656/9660/202206/t20220628_934181.htm

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

http://www.gov.cn/zhengce/zhengceku/2020-06/30/content_5522949.htm

You can click this link to access the full contents of PN 16:

http://www.zqdh.gov.cn/zwgk/zdlyxxgk/czysjshsgjfgk/jsjfx/content/post_2727649.html

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

<http://www.pds.gov.cn/contents/22451/134029.html>

► **Fiscal and tax support plans of the central government on promoting ecological protection and high-quality development of the Yellow River Basin (Caiyu [2022] No. 112)**

Synopsis

To implement the strategy of ecological protection and high-quality development of the Yellow River Basin, on 24 August 2022, the MOF released Caiyu [2022] No. 112 (“Circular 112”), introducing relevant fiscal and tax support plans.

According to Circular 112, several key fiscal and tax measures are introduced as follows:

- Enterprises engaging in qualified environmental protection, energy conservation and water-saving projects can enjoy “three plus three tax holiday”⁷ according to regulations.
- Enterprises that purchase special equipment for use in environmental protection, energy conservation and water-saving can obtain tax credits for offsetting the CIT payable amount according to regulations⁸.
- Implement differentiated tax rates on water resources. Levy high taxes and fees for groundwater use according to regulations.

- ▶ Support provinces and regions along the Yellow River to attract talents. Implement preferential Individual Income Tax policies, subsidies and R&D funds to attract high-level talents to innovate and start businesses.

Interested parties are advised to read Circular 112 for details and fully utilize the benefits offered. If in doubt, consultations with professionals are always recommended.

⁷ According to the “Implementation Regulations on the CIT Law of the People’s Republic of China (PRC) (Revised in 2019)” (hereinafter referred to as the “Implementation Regulations on the CIT Law”), for an enterprise engaging in qualified environmental protection, energy conservation and water-saving projects, from the tax year in which operating income of the project is generated for the first time, the enterprise shall be eligible for a three-year CIT exemption followed by a three-year 50% reduction of the statutory CIT rate.

⁸ According to the “Implementation Regulations on the CIT Law”, for enterprises that purchase special equipment for use in environmental protection, energy and water conservation and work safety purposes, 10% of the purchase amount may offset the CIT payable amount for the current year; the balance after offsetting may be carried forward to the following five tax years.

You can click this link to access the full content of Circular 112:

http://yss.mof.gov.cn/zhengceguizhang/202209/t20220906_3838782.htm

You can click this link to access the full content of the Implementation Regulations on the CIT Law:

http://www.gov.cn/zhengce/2020-12/27/content_5574505.htm

Business circular

- ▶ **Regulations of Shenzhen Special Economic Zone on Foreign Investment (Shenzhen Municipal People’s Congress PN [2022] No. 66)**

Synopsis

To promote foreign investment, protect the legitimate rights and interests of foreign investment and regulate the management of foreign investment, on 5 September 2022, Shenzhen Municipal People’s Congress released the Regulations of Shenzhen Special Economic Zone on Foreign Investment (hereinafter referred to as the “Regulations”) via Shenzhen Municipal People’s Congress PN [2022] No. 66.

The Regulations have 46 articles under six chapters, i.e., the general principles, investment access, investment facilitation, rights and interest guarantee, government services, supplementary provisions. Key features of the Regulations are as follows:

- ▶ Clarify the responsibilities of the competent department in charge of foreign investment in Shenzhen
- ▶ Refine the implementation of the national access system for foreign investment
- ▶ Improve the facilitation measures for foreign investment
- ▶ Strengthen the protection of rights and interests of foreign investment enterprises
- ▶ Further improve government services for foreign investment

Specifically, Article 12 of the Regulations states that foreign investors shall be encouraged to invest in key sectors, such as advanced manufacturing, emerging industries, high technology, energy conservation and environmental protection. In turn, for those that have significant contributions to promote employments, economic development and technology innovation, the governments at the municipal/district level shall formulate investment facilitation policies from the perspectives of fee reduction, land use guarantee, public service supply, etc. and implement the preferential treatments from finance, tax, banking, and land use within their jurisdictions.

Relevant parties are advised to read the Regulations for details and make appropriate investment plans to enjoy the preferential treatments offered.

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

http://www.szrd.gov.cn/rdlv/chwgg/content/post_834237.html

- ▶ **Notice regarding the “Measures of the General Administration of Customs for Supporting the Comprehensive Deepening the Reform and Open-up in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone” (Shuzonghan [2022] No. 137)**

Synopsis

To support the construction of an experimental platform of the Guangdong-Hong Kong-Macao Greater Bay Area for comprehensively deepening the reform and innovation in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (hereinafter referred to as the “Qianhai Cooperation Zone”), on 7 September 2022, the General Administration of Customs (GAC) issued the “Measures of the GAC for Supporting the Comprehensive Deepening of the Reform and Open-up in the Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone” via Shuzonghan [2022] No. 137 (“Circular 137”).

Key measures introduced in Circular 137 are as follows:

- ▶ Support Qianhai to build a big data service platform for cross-border trade

Build a pilot big data platform for cross-border trade in Qianhai and promote interconnection of cross-border data, mutual recognition of documents, and mutual assistance of supervision between Shenzhen and Hong Kong.

- ▶ Carry out “soft interconnection” cooperation in rules and systems between Shenzhen and Hong Kong

Promote the linkage of regulatory rules and testing standards between Shenzhen and Hong Kong, and pilot “one-time testing, one-time certification and integrated pass”.

- ▶ Expand health and quarantine cooperation between Shenzhen and Hong Kong

Promote the inclusion of customs health declaration information into the transcoding scope of health codes of Guangdong and Hong Kong, and achieve information sharing, mutual recognition of results, and joint epidemic prevention.

- ▶ Serve Hong Kong and Macao enterprises to settle in Qianhai

Hong Kong and Macao enterprises that carry out production and business activities with registration in Shenzhen as market entities can directly handle record filing under the capacity of customs declaration entities in the Shenzhen Qianhai Shekou area of China (Guangdong) Pilot Free Trade Zone (PFTZ).

- ▶ Enhance the comprehensive hub function of Qianhai

Support the establishment of ports in Qianhai according to regulations, support the construction of international trade comprehensive port, and to achieve land, marine and air multimodal transportations.

- ▶ Build an upgraded comprehensive bonded zone with characteristics of Shenzhen-Hong Kong modern service industry

Explore and pilot rules interconnection and system innovation between Shenzhen and Hong Kong, and explore the establishment of service facilities such as catering, retail of consumer goods, charging piles in designated areas that support production and business activities in the zone and do not involve goods that are duty-free, bonded or subject to tax refund.

- ▶ Improve quality and efficiency of tax-free consumption

Facilitate the circulation between duty-free goods supervision warehouses outside the zone and bonded goods supervision warehouses inside the zone, and improve the efficiency of circulation and sales.

- ▶ Support the collaborative development of the Shenzhen Qianhai Shekou Area of China (Guangdong) PFTZ and Qianhai Cooperation Zone

Under the requirements for the replication and promotion of innovation system and the scope of implementation, support the promotion and implementation of the innovation system of the Shenzhen Qianhai Shekou Area of China (Guangdong) PFTZ in the Qianhai Cooperation Zone.

Interested parties are advised to read Circular 137 for details and enjoy the facilitation offered.

You can click this link to access the full content of Circular 137:

<http://www.customs.gov.cn/customs/302249/zfxxgk/zfxxgkml34/4559289/index.html>

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

- ▶ **Notice regarding increasing the budget for transfer payments of input Value-added Tax refunds (Caiyu [2022] No. 110)**
http://yss.mof.gov.cn/gongzuodongtai/202209/t20220905_3838266.htm
- ▶ **Notice regarding the "List of Key Tasks for Government Affairs Disclosure of Tax System in 2022" (Shuizongbanxuanchuanfa [2022] No. 54)**
http://zhejiang.chinatax.gov.cn/art/2022/8/30/art_8409_82681.html
- ▶ **Measures for the Supervision and Administration of Online Drug Sales (SAMR Order [2022] No. 58)**
https://gkml.samr.gov.cn/nsjg/fqs/202209/t20220901_349742.html
- ▶ **Agricultural Product Quality and Safety Law of the PRC (Chairman Order [2022] No. 120)**
<http://www.npc.gov.cn/npc/c30834/202209/03d53d6ff5cb4161a360916631561caa.shtml>
- ▶ **Opinions on supporting the new and old kinetic energy conversion and promoting the green, low-carbon and high-quality development (Guofa [2022] No. 18)**
http://www.gov.cn/zhengce/content/2022-09/02/content_5708004.htm
- ▶ **Opinions on further enhancing the popularization of science and technology**
http://www.gov.cn/zhengce/2022-09/04/content_5708260.htm
- ▶ **Notice regarding launching pilot scheme of financial services for railway transport documents to better support the development of cross-border trade (Yinbaojianbanfa [2022] No. 82)**
<http://www.cbirc.gov.cn/cn/view/pages/ItemDetail.html?docId=1070709>
- ▶ **Application Guidelines on Data Exit Security Evaluation (First Edition)**
http://www.cac.gov.cn/2022-08/31/c_1663568169996202.htm
- ▶ **Notice regarding the recognition of the 2022 National Enterprise Technology Center (29th batch) (Fagaibangaoji [2022] No. 751)**
https://www.ndrc.gov.cn/xxgk/zcfb/tz//202209/t20220908_1335323.html
- ▶ **A Catalog of Currently Enforceable Laws (293 in total)**
<http://www.npc.gov.cn/npc/c30834/202209/1ffa180b336247069bf8b42eb1f337a3.shtml>
- ▶ **Notice regarding subsidizing local fund budget with the Vehicle Purchase Tax revenue of 2022 (eighth batch) (Caijian [2022] No. 305)**
http://jjs.mof.gov.cn/zxzyzf/clgzssrbzdf/202209/t20220907_3839028.htm
- ▶ **Notice regarding public opinions consultation on the "Basic Catalog of National Public Credit Information (2022 Version) (Discussion Draft)" and the "Basic List of National Punishment Measures for Entities and Individuals Acting in Bad Faith (2022 Version) (Discussion Draft)"**
<https://yyglxxbsgw.ndrc.gov.cn/htmls/article/article.html?articleId=2c97d16b-82cf3be1-0183-1ff874bc-0018#iframeHeight=806>

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