



BDO China Shu Lun Pan Certified Public Accountants LLP  
Lixin Certified Tax Agents Co., Ltd

## China Tax Newsletter

January 2016

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## **1. The Scope of Exemption of Governmental Funds Has Been Expanded**

Caishui [2016] No.12 has expanded the scope of exemption of governmental funds. The detailed provision is as follows:

The scope of taxpayers exempted from paying education surcharge, local education surcharge and water conservancy construction fund has been expanded from taxpayers whose monthly sales/turnover not exceeding RMB30,000 for those performing monthly tax filings (quarterly sales/turnover not exceeding RMB90,000 for taxpayers performing quarterly filings) to taxpayers with monthly sales/turnover of RMB100,000 at most (RMB300,000 at most for quarterly sales/turnover).

The notice shall be implemented with effect from 1 February 2016.

## **2. Amendments to Certain Tax Returns of the Set of Annual Enterprise Income Tax ("EIT") Returns**

The Announcement of the State Administration of Taxation [2016] No.3 has made certain amendments to the annual EIT returns. Details are as follows:

(1)The following three tax returns have been revised:

The "Schedule of Accelerated Depreciation and Deductions for Fixed Assets" (A105081): It has added in certain lines to reconcile with quarterly tax returns. It also bears the functions of declaration and filing and calculation of tax reduction/exemption of fixed assets as required by the original policies on accelerated depreciation of fixed assets.

The "Schedule of Deductibles for Taxable Income Amount" (A107030): It has added in certain lines with regard to "deductibles for taxable income amount of legal person partners of limited partnership venture capital enterprises as received from the venture capital enterprises which are in certain proportion to the investment amounts made by the venture capital enterprises".

The "Schedule of Income Relief Incentives" (A107040): The amendments facilitate the completion of the form in view of the expansion of scope of small low-profit enterprises applicable to the 50% EIT reduction from the 4<sup>th</sup> quarter of 2015. It solves the problems of completion of the form under new tax incentives. It has classified in detail and grouped certain reduction/exemption items. Furthermore, it reserves certain lines to list "others" to improve the compatibility of the form.

(2) Certain lines of the "Enterprise Basic Information Form" (A000000) and the notes on completion have been revised as follows:

The original statement of "industries not restricted or prohibited by the State" has been changed to "industries restricted or prohibited by the State". In the notes on completion for "103 Detailed Code of Industry", the contents on determining whether a small low-profit enterprise is an industrial enterprise have been revised.

(3)The contents related to "worldwide exclusive license" in the notes on completion of the "Schedule of Income Relief Incentives" (A107020) has been deleted.

(4)The forms of the "Schedule of Tax Adjustments for Employee Wages and Salaries" (A105050), the "Schedule of Tax Adjustments for Donation Expenditure" (A105070) and the "Schedule of Tax Adjustments for Special Industry Provisions" (A105120) need to be completed previously only when enterprises have incurred related tax adjustments. After the amendments, these forms shall be completed when enterprises incur relevant expenditures or provisions. Besides, the "Incentive Information and Breakdown for High-tech Enterprises" (A107041) shall be completed by taxpayers who have obtained high-tech enterprise qualification.

The revised annual EIT returns shall be applicable to taxpayers from 2015 annual EIT filing.

### **3. Extension of Tax Incentive Policy on Public Rental Housing**

Caishui [2015] No.139 extends the tax incentive policy promulgated in Caishui [2014] No.52, with no change on the incentive contents. The tax incentives still apply to the construction and operation of public rental housing. The main contents are as follows:

- (1) Urban land use tax is exempt for the land used for the construction of public rental housing and the land occupied for public rental housing after completion.
- (2) Public rental housing operation and management entities are exempt from stamp duty involved in the construction and management of public rental housing.
- (3) Public rental housing operation and management entities are exempt from deed tax and stamp duty if they purchase residential houses to be used as public rental housing.
- (4) Enterprises and organizations are exempt from land appreciation tax if they transfer old houses as public rental housing, and the incremental value does not exceed 20% of the amount of deductible items.
- (5) Enterprises and organizations that donate residential houses as public rental housing in compliance with tax laws and regulations are allowed to deduct the same from the taxable income, provided the expenditure for public welfare donations is within 12% of the total annual profits.
- (6) Individuals that donate residential houses as public rental housing in compliance with tax laws and regulations are allowed to deduct the same from the taxable income, provided the expenditure for public welfare donations is within 30% of the taxable income they have declared.

Families that enjoy the policy of low-income housing and meet the conditions as specified by local governments are exempt from individual income tax if they receive subsidies for low-rent housing from local governments.

- (7) Real estate tax is exempt on public rental housing. Rental income from the operation of public rental housing is exempt from business tax.

The notice shall be implemented with effect from 1 January 2016 to 31 December 2018.

### **4. Notice on Revision of Administrative Measures on Accreditation of High-tech Enterprises**

The Administrative Measures on Accreditation of High-tech Enterprises has been revised. The main changes include:

- (1) Independent intellectual property: The restrictions of "during the past three years" and "through exclusive licensing for more than five years" when obtaining independent intellectual property have been cancelled.
- (2) The proportion of technical personnel: The provision on education degrees and qualifications has been cancelled. Meanwhile, the requirement on proportion of technical personnel to total number of employees is reduced from 30% to 10%.
- (3) The proportion of expenditure on research and development ("R&D"): The new regulation intends to encourage the creativity of small and medium-sized enterprises. The required minimum percentage of the total amount of R&D expenditure to the total amount of sales revenue decreases from 6% to 5% for small and medium-sized enterprises whose annual turnover is less than RMB50 million.
- (4) Other conditions for accreditation: The new regulation introduces a concept of "evaluation of capability of innovation". Meanwhile, it has stipulated the rule "the enterprise

applying for accreditation had not incurred any serious safety or quality accidents or had any serious illegal actions violating environment protection regulations during the previous year".

(5) Submission of application documents: It is newly required that the "annual EIT returns for the past three fiscal years" shall be submitted. It is also required to submit the "notes to financial statements and the financial situation statement" together with financial statements.

(6) Statement of Yearly Development: It is newly required that enterprises shall fill in and file the Statement of Yearly Development.

(7) Requirement on public announcement: The public announcement of accreditation of high-tech enterprises is shortened to 10 working days.

(8) Administration and supervision: It introduces the administration mechanism of random inspection and key supervision. Among the circumstances of cancelling qualifications, the provision of "tax evasion, tax fraud etc." has been deleted, replaced by the provisions of "not duly reporting significant change in circumstances related to the qualification accreditation", or "an aggregate of two years not filling in the Statement of Yearly Development". The provision of "not accepting the accreditation application of the enterprise which has had its qualification cancelled within the recent five years" has been deleted. The administrative measures on accreditation of high-tech enterprises have also been clarified for enterprises that had relocated across different administrative areas with different accreditation authorities.

(9) There are also eight areas as stated in the Key Advanced and New Technology Industries Supported by the State annexed to the new regulation, while the eighth area has been changed from "advance technology transforming traditional industry" to "advanced manufacturing and automation".

The notice shall be implemented with effect from 1 January 2016.

#### **5. Clarification on Cancellation of Invoice Verification for Taxpayers Graded as A in Tax-Paying Credit**

Starting from 1 March 2016, taxpayers who obtain Value-added Tax ("VAT") invoices (including special VAT invoices, special VAT invoices for goods transportation industry, and uniform invoices for sales of motor vehicles, the same below) issued by upgraded VAT invoicing system are not required to scan to verify the invoices. Instead, they shall log on to the invoice inquiry platform provided by state tax bureaus at the provincial level to inquire and select the relevant invoice information for application of VAT deduction or export VAT refund. Meanwhile, the method of completion of VAT returns remains the same.

If relevant invoice information cannot be found on the platform, a taxpayer shall still scan to verify the invoices.

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