



China Tax Newsletter

June 2019

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1. State Taxation Administration Released New Guidelines for Preferential Tax Policies on Mass Entrepreneurship and Innovation

To facilitate taxpayers in learning the preferential tax policies in a timely manner and giving better play to the influence of preferential tax policies on mass entrepreneurship and innovation, the State Taxation Administration released Guidelines for Preferential Tax Policies on Mass Entrepreneurship and Innovation (hereinafter referred to as “Guidelines”).

The Guidelines summarized a total of 89 preferential tax policies and initiatives that had been introduced to spur entrepreneurship and innovation as of June 2019, including 78 that were promulgated after 2013, covering enterprises in the entire lifecycle from the start-up phase to the growth phase. With the same structure as those in 2017, the Guidelines are structured into several chapters, including introductions, a compilation of preferential tax policies and a compilation of policy documents. Each preferential tax item is structured into the beneficiary, the content of tax preferences, the eligibility for claiming the tax preferences and policy basis. The compilation of preferential tax policies continues to classify the tax preferences applicable to enterprises based on three development phases, namely, the start-up phase, the growth phase and the maturity phase.

2. Deduction Rate for Service Fees and Commission Expenditure Incurred by Insurance Enterprise Increased to 18%

The Ministry of Finance and the State Taxation Administration released Announcement on Policies Relating to Pre-tax Deduction of Service Fees and Commission Expenditure of Insurance Enterprises (Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 72) and clarified that the portion of service fees and commission expenditure incurred by an insurance enterprise in relation to its business activities, which does not exceed 18% (18% inclusive) of the balance amount of all insurance premium income less the surrender value, etc. of the current year, shall be allowed for deduction at the calculation of the taxable income amount; the excess portion shall be allowed to be carried forward to subsequent years for deduction.

3. Announcement on Taxable Income Items Applicable to Security Income, Income Generated from the Acceptance of Gratuitous Bestowment of Property, Gift Income and Individual Tax-Deferred Commercial Pension Income Received by an Individual

In order to ensure the smooth transfer of the old individual income tax law to the new one, the Ministry of Finance and the State Taxation Administration released the Announcement on Taxable Income Items Applicable to Income Generated by Individuals (Announcement of the Ministry of Finance and the State Taxation



Administration [2019] No. 74) on June 19, 2019 and clarified matters regarding taxable income items in relation to security income, income generated from the acceptance of gratuitous bestowment of property, gift income and individual tax-deferred commercial pension income received by an individual.

① Where an individual obtains income by providing security to organizations or other individuals, the individual income tax shall be calculated and paid under the "Contingent Income" item.

② Where a property owner gratuitously donates the property rights to others, the income of the recipient generated from the acceptance of gratuitous bestowment of property shall be subject to individual income tax under the "Contingent Income" item. In respect of gratuitous bestowment of property rights that comply with any of the following circumstances, both parties thereto are not subject to individual income tax:

A. The property owner gratuitously donates the property rights to his or her spouse, parents, children, grandparents, grandchildren, brothers and sisters;

B. The property owner gratuitously donates the property rights to his or her dependents who have directly undertaken obligations of support or dependence to him/her;

C. The takeover of property rights by the statutory successor, successor according to the will, or heir after the death of the previous property owner in accordance with relevant laws.

③ For gifts from an enterprise to individuals who are non-staff of the enterprise randomly in business promotion, advertising, etc. and at annual meetings, seminars, celebration events and other activities, income derived by individuals from the gifts shall be subject to individual income tax under the "Contingent Income" item, except for vouchers and coupons in the nature of discounts.

④ In accordance with Notice of the Ministry of Finance, State Taxation Administration, Ministry of Human Resources and Social Security, China Banking and Insurance Regulatory Commission and China Securities Regulatory Commission on Launching the Pilot Program for Individual Tax-deferred Commercial Pension Insurance (Cai Shui [2018] No. 22), for the individual tax-deferred commercial pension income received by an individual who satisfies the prescribed conditions, 25% of such income is exempt from tax, while the remaining 75% are subject to individual income tax at a rate of 10%, and the tax payment shall be included under the item of "Income from wages and salaries". Insurance companies shall declare full amount for all the insured at the location of the insurer from whom the individual purchases the tax-deferred pension insurance after withholding and remitting the individual income tax payable.

4. Notice on Individual Income Tax Preferences for Guangdong-Hong Kong-Macau Greater Bay Area

To support the development of the Guangdong-Hong Kong-Macau Greater Bay Area, the Ministry of Finance and the State Taxation Administration released the Notice on



Individual Income Tax Preferences for Guangdong-Hong Kong-Macau Greater Bay Area (Cai Shui [2019] No. 31, hereinafter referred to as “**Notice No. 31**”). Notice No. 31 stipulates that Guangdong Province and Shenzhen Municipality shall, in accordance with individual income tax difference between Mainland and Hong Kong, grant subsidy for overseas (including Hong Kong, Macau and Taiwan) high-end talents and highly sought-after talents working in the Greater Bay Area, and such subsidy shall be exempted from individual income tax. The scope of application of this Notice shall include nine municipalities in the Greater Bay Area Pearl River Delta, namely Guangzhou Municipality, Shenzhen Municipality, Zhuhai Municipality, Foshan Municipality, Huizhou Municipality, Dongguan Municipality, Zhongshan Municipality, Jiangmen Municipality and Zhaoqing Municipality of Guangdong Province.

5. Administrative Method of Retention of Relevant Materials for Future Inspection in Respect of Entitlement to Preferences for Six Taxes and One Fee

In order to improve approaches to tax law enforcement and deepen the reform of "Streamlining Administration, Delegating Power and Boosting Regulatory Innovations, and Upgrading Services", the State Taxation Administration has decided to implement the administrative method of retention of the relevant materials for future inspection in respect of entitlement to preferences for urban land use tax, real estate tax, arable land occupation tax, vehicle and vessel tax, stamp duty, urban maintenance and construction tax, and education surcharge (hereinafter referred to collectively as the "Six Taxes and One Fee"). Taxpayers shall assume legal liabilities for the authenticity and legitimacy of materials retained for future inspection for "Six Taxes and One Fee" preferences.

Tips from BDO Tax

Where taxpayers suffer from significant losses resulting from severe natural disasters in relation to wind, fire, water and earthquakes or other force majeure, or are engaged in industries supported and encouraged by the state or public welfare undertakings and really have difficulties in paying taxes, they may make applications to the competent tax authorities for tax reliefs to tax payment difficulties in respect of urban land use tax and real estate tax. However, tax reliefs to tax payment difficulties in respect of urban land use tax and real estate tax is not subject to the above-mentioned regulation regarding the retention of the relevant materials for future inspection. For the detailed criteria, materials required and other requirements, taxpayers shall refer to the policies promulgated by tax authorities in each province, autonomous region and municipality directly under the central government.



This publication has been carefully prepared, but it has been written in general terms and should be seen as broad guidance only. The publication cannot be relied upon to cover specific situations and you should not act, or refrain from acting, upon the information contained therein without obtaining specific professional advice. Please contact BDO China Shu Lun Pan Certified Public Accountants LLP and Lixin Certified Tax Agents Co., Ltd to discuss these matters in the context of your particular circumstances. BDO China Shu Lun Pan Certified Public Accountants LLP and Lixin Certified Tax Agents Co., Ltd, its partners, employees and agents do not accept or assume any liability or duty of care for any loss arising from any action taken or not taken by anyone in reliance on the information in this publication or for any decision based on it. For more information or advice on the above subjects or other tax issues, please contact:

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