



# China Tax Newsletter

December 2020

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## 1. Implementation of Electronic Special VAT Invoices Among Newly Established Taxpayers

To deepen the reform of administration streamlining and power delegation, regulation innovation and government services optimization in the field of tax collection, and further promote the use of electronic invoices, the State Taxation Administration promulgated the Announcement on Matters concerning the Implementation on Electronic Special VAT Invoices Among Newly Established Taxpayers (Announcement of the State Taxation Administration [2020] No. 22) and the interpretation of the Announcement. Main content is as follows:

- ① From December 21, 2020, the electronic special VAT invoices shall be implemented among newly established taxpayers in 11 prefectures including Tianjin, Hebei, Shanghai, Jiangsu, Zhejiang, Anhui, Guangdong, Chongqing, Sichuan, Ningbo and Shenzhen, and the scope of invoice receiver shall be the nationwide. In particular, the scope of invoice receiver for Ningbo, Shijiazhuang and Hangzhou, the 3 pilot prefectures for issuance of electronic VAT special invoices (hereinafter referred to as "electronic special invoices"), shall be extended to the nationwide.

From January 21, 2021, the electronic special VAT invoices shall be implemented among newly established taxpayers in 25 prefectures including Beijing, Shanxi, Inner Mongolia, Liaoning, Jilin, Heilongjiang, Fujian, Jiangxi, Shandong, Henan, Hubei, Hunan, Guangxi, Hainan, Guizhou, Yunnan, Tibet, Shaanxi, Gansu, Qinghai, Ningxia, Xinjiang, Dalian, Xiamen and Qingdao, and the scope of invoice receiver shall be the nationwide.

Specific scope of newly established taxpayers subject to the electronic special invoices shall be determined by the tax authorities in each province, autonomous region, municipality directly under the Central Government and city separately listed in the State plan under the State Taxation Administration (hereinafter referred to as "provincial tax authorities").

- ② Electronic special invoices shall be manufactured under the supervision of provincial tax authorities and electronic signature shall replace special invoice chop. The legal effect, basic use and basic usage rules of the electronic special invoices shall be the same as the paper special VAT invoices (hereinafter referred to as "paper special invoices").
- ③ From the implementation date of electronic special invoices in various prefectures, a newly established taxpayer in a prefecture who needs to issue paper general VAT invoices, electronic general VAT invoices (hereinafter referred to as "electronic general invoices"), paper special invoices, electronic special invoices, paper uniform invoices for sale of motor vehicles and paper uniform invoices for sale of used vehicles shall uniformly claim tax Ukey to issue invoice. Tax authorities shall give tax Ukey to newly established taxpayers for free and provide services on the issuance of electronic special invoices to taxpayers for free through the public service platform of electronic VAT invoices.



- ④ Tax authorities shall verify and determine the requisition number of special VAT invoices for taxpayers according to the total number of electronic special invoices and paper special invoices. The maximum invoicing amount of electronic special invoices and paper special invoices shall be the same in the tax control system for VAT.
- ⑤ Taxpayers may issue either electronic special invoices or paper special invoices upon the issuance of special VAT invoices. Where an invoice receiver requires a paper special invoice, the invoice issuer shall issue a paper special invoice thereto.

## **2. Definition of Tax Filing Deadlines for 2021**

The General Office of the State Taxation Administration promulgated the Notice on Definition of Tax Filing Deadlines for 2021 (Shui Zong Ban Han [2020] No. 242), and the specific tax filing deadlines of 2021 for each tax category that shall be filed within 15 days after the end of each month or quarter are specified as follows:

- ① The deadline for filing tax returns in March, July, September, November and December shall end on the 15th day of the same month respectively.
- ② There will be a 3-day holiday from January 1 to January 3. The deadline for filing tax returns in January will be postponed to January 20.
- ③ There will be a 7-day holiday from February 11 to February 17. The deadline for filing tax returns in February will be postponed to February 23.
- ④ There will be a 3-day holiday from April 3 to April 5. The deadline for filing tax returns in April will be postponed to April 20.
- ⑤ There will be a 5-day holiday from May 1 to May 5. The deadline for filing tax returns in May will be postponed to May 21.
- ⑥ There will be a 3-day holiday from June 12 to June 14. The deadline for filing tax returns in June will be postponed to June 18.
- ⑦ Since August 15 is Sunday, the deadline for filing tax returns in August will be postponed to August 16.
- ⑧ There will be a 7-day holiday from October 1 to October 7. The deadline for filing tax returns in October will be postponed to October 26.

## **3. Extension of Policies on Pre-tax Deduction of Advertising Expenses and Business Promotion Expenses**

The Ministry of Finance and the State Taxation Administration promulgated the Announcement on Relevant Matters concerning Pre-tax Deduction of Advertising Expenses and Business Promotion Expenses (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 43), which is effective from January 1, 2021. Main content is as follows:

- ① The portion of advertising expenses and business promotion expenses incurred



by an enterprise for sale or manufacture of cosmetics, manufacture of drugs or manufacture of beverage (excluding manufacture of alcohol) that does not exceed 30% of sales (operating) revenue for the current year shall be allowed for pre-tax deduction. The exceeding portion shall be allowed to be carried forward and deducted in the subsequent tax year.

- ② For related enterprises that conclude an advertising expense and business promotion expense sharing agreement (hereinafter referred to as sharing agreement), a party may choose to deduct by itself the advertising expenses and business promotion expenses incurred that do not exceed the upper limit of pre-tax deduction per sales (operating) revenue for the current year, or may transfer part or all of the expenses according to the sharing agreement to the other party for deduction. When the other party calculate the upper limit of pre-tax deduction of advertising expenses and business promotion expenses for enterprise income tax purpose, the enterprise may not include the advertising expenses and business promotion expenses transferred to it according to the above method in the calculation.
- ③ Advertising expenses for tobacco and business promotion expenses incurred by a tobacco enterprise shall not be deducted from the calculation of taxable income.

#### 4. Enterprise Income Tax Policies on Promotion of the High-quality Development of Integrated Circuit Industry and Software Industry

To promote the high-quality development of integrated circuit (IC) industry and software industry, after the promulgation of the Notice on Several Policies for Promotion of the High-quality Development of Integrated Circuit and Software Industries in the New Era (Guo Fa [2020] No. 8), the Ministry of Finance and the State Taxation Administration promulgated the Announcement on Enterprise Income Tax Policies on Promotion of the High-quality Development of Integrated Circuit Industry and Software Industry (Announcement of the Ministry of Finance, the State Taxation Administration, the National Development and Reform Commission and the Ministry of Industry and Information Technology [2020] No. 45) (hereinafter referred to as Announcement No. 45). Main tax incentives are as follows:

Tax Category	Scope of Incentive	Details of Incentive
Enterprise Income Tax	An IC manufacturer or project encouraged by the State to manufacture ICs with a linewidth of less than 28 nanometers (inclusive) and an operation period of more than 15 years	Exemption from enterprise income tax from the first year to the tenth year
	An IC manufacturer or project encouraged by the State to manufacture ICs with a linewidth of less than 65 nanometers (inclusive) and an operation term of more than 15 years	Exemption from enterprise income tax from the first year to the fifth year, eligible to enterprise income tax reduction by half based on the statutory tax rate of 25% from the sixth year to the tenth year



Tax Category	Scope of Incentive	Details of Incentive
	An IC manufacturer or project encouraged by the State to manufacture ICs with a linewidth of less than 130 nanometers (inclusive) and an operation term of more than 10 years	Exemption from enterprise income tax from the first year to the second year, eligible to enterprise income tax reduction by half based on the statutory tax rate of 25% from the third year to the fifth year
	An IC manufacturer encouraged by the State to manufacture ICs with a linewidth of less than 130 nanometers (inclusive)	In the year when the enterprise is included in the list of IC manufacturing enterprises encouraged by the State, losses incurred in the prior five taxpaying years that have not be offset are allowed to be carried forward to the following years for deduction, but the maximum period for carrying forward shall not exceed ten years.
	Enterprises engaged in IC design, equipment, materials, packaging and testing and software enterprises encouraged by the State	Exemption from enterprise income tax in the first and second years from the year when they begin to make profits, and eligible to enterprise income tax reduction by half based on the statutory tax rate of 25% from the third to the fifth year
	Key IC design enterprises and software enterprises encouraged by the State	Exemption from enterprise income tax from the first to the fifth year from the profit-making year and eligible to enterprise income tax at the reduced tax rate of 10% for subsequent years

In addition, Announcement No. 45 stipulates the following regulations regarding policy transition and follow-up management:

- ① An enterprise or a project that meets the conditions of eligibility to the original policy and have entered the preferential period before 2019 (inclusive), the enterprise or the project may enjoy the incentive from 2020 (inclusive) till the expiration according to the original policy. If the enterprise or the project is applicable to the Article 1 to 4 of the Announcement, the enterprise or the project may enjoy relevant incentives in accordance with the Announcement. Where the enterprise or the project enjoys tax reduction or exemption within a specified period, the enterprise or the project may calculate the preferential period in accordance with the Announcement and enjoy the incentives for the residual period till the expiration. An enterprise or a project that meets the conditions of eligibility to the original policy but have not entered the preferential period before 2019 (inclusive), the enterprise or the project shall not be subject to the original policy from 2020 (inclusive).
- ② Where an IC enterprise or a project, or a software enterprise is eligible to several tax reduction and exemption incentives within a specified period per the provisions of the Announcement, the enterprise may choose one of the incentives to enjoy. In particular, if the enterprise has entered the preferential period, the enterprise may choose one of the incentives to enjoy for the remaining period.
- ③ Where the incentives of the Announcement are administered by list, the list of



enterprises and projects that may enjoy the incentives for the last year shall be provided by the National Development and Reform Commission and the Ministry of Industry and Information Technology to the Ministry of Finance and the State Taxation Administration. Where the incentives of the Announcement are not administered by list, tax authorities may ask the National Development and Reform Commission and the Ministry of Industry and Information Technology to verify and check the eligibility of enterprises and projects in accordance with Article 10 of circular Cai Shui [2016] No. 49.

## **5. Further Simplification and Improvement of the Advance Withholding and Payment Method for Individual Income Tax on Some Taxpayers**

To further support stable employment, ensure employment and promote consumption, and build a new pattern for development, the State Taxation Administration promulgated the Announcement on Further Simplification and Improvement of the Advance Withholding and Payment Method for Individual Income Tax on Some Taxpayers (Announcement of the State Taxation Administration [2020] No. 19) and the interpretation of the Announcement, which is effective from January 1, 2021. Main content is as follows:

- ① For resident individuals whose wage and salary income in the whole year does not exceed RMB60,000 on which individual income tax is withheld and prepaid by the same organization on a monthly basis within the preceding complete tax year, the withholding agent shall, at the time of withholding and prepayment of individual income tax on income from wages and salaries for the current year, compute and deduct the cumulative amount for expenses directly based on RMB60,000 for the whole year with effect from January. That is, individual income tax shall not be withheld and paid in advance in the month in which the accumulated revenue of the taxpayer does not exceed RMB60,000 and shall be withheld and paid in advance in the month in which the accumulated revenue of the taxpayer exceeds RMB60,000 and the subsequent months within the year. The withholding agent shall declare withholding and payment in full for all taxpayers and indicate "has declared for each month of the preceding year and the annual income does not exceed RMB60,000" in the remarks column of the Tax Return for Withholding and Payment of Individual Income Tax for corresponding taxpayers.
- ② Where individual income tax on the remuneration for labor services of resident individuals is withheld and prepaid pursuant to the cumulative withholding method, the withholding agent shall refer to the aforesaid provisions for execution.

## **6. Administrative Measures of the Customs of the People's Republic of China on Tax Reduction and Exemption for Imported and Exported Goods**

To regulate the work of the Customs on administration of tax reduction and exemption for imported and exported goods, the General Administration of Customs



promulgated the Decree on Promulgation of Administrative Measures of the Customs of the People's Republic of China on Tax Reduction and Exemption for Imported and Exported Goods (Decree of the General Administration of Customs [2020] No. 245) (hereinafter referred to as the Measures), which is effective from March 1, 2021.

The Measures is applicable to tariff reduction and exemption for imported and exported goods, and taxes affairs in the step of import. Applicants for tax reduction and exemption for imported and exported goods shall apply to their tax authorities in charge for relevant affairs including examination and confirmation of tax reduction and exemption, tax payment guarantee for goods subject to tax reduction and exemption, subsequent administration of goods subject to tax reduction and exemption. The Measures defines the regulatory period for goods subject to tax reduction and exemption as: 8 years for vessels and aircrafts, 6 years for motor vehicles, 3 years for other goods. The Administrative Measures of the Customs on Tax Reduction and Exemption for Imported and Exported Goods promulgated in 2008 shall be simultaneously abolished.

In addition, the General Administration of Customs promulgated the Decree on Promulgation of Administrative Measures of the Customs of the People's Republic of China on Administrative Licensing (Decree of the General Administration of Customs [2020] No. 246), which stipulates the administrative measures for the work of the Customs on administrative licensing.

## **7. Measures of the Customs for Supervision and Administration of Imported Zero-tariff Raw Materials and Auxiliary Materials in Hainan Free Trade Port (Trial)**

To fully implement the Overall Plan for Construction of Hainan Free Trade Port and regulate the supervision and administration of the Customs on imported zero-tariff raw materials and auxiliary materials in Hainan Free Trade Port, the General Administration of Customs promulgated the Announcement on Promulgation of Measures of the Customs for Supervision and Administration of Imported Zero-tariff Raw Materials and Auxiliary Materials in Hainan Free Trade Port (Trial), with main content as follows:

- ① Before the operation of closing the Customs in the whole Hainan Island, for enterprises registered in Hainan Free Trade Port and with the qualification of independent legal person, raw materials and auxiliary materials (hereinafter referred to as "zero-tariff" raw materials and auxiliary materials) in the positive list consumed and imported for production and self-use, or consumed in production and processing activities under the mode of "raw materials and sales in international market", or consumed in service and trade process under the mode of "raw materials and sales in international market" are exempted from import tariff, VAT and consumption tax in the step of import.
- ② Where spare parts for maintenance of aircrafts and vessels (including maintenance of relevant spare parts) meet one of the following conditions, they shall be subject to the policy of "zero tariff" raw material and auxiliary material and exempted from import tariff, VAT and consumption tax in the step of import:



- a. Spare parts used to fix the aircrafts and vessels (including relevant spare parts) transported from overseas to China and then transported to overseas again;
- b. Spare parts used to fix the aircrafts operated by aviation enterprises with a main operation base in Hainan;
- c. Spare parts used to fix the vessels (including relevant spare parts) with a port of registry in Hainan operated by shipping enterprises registered with independent legal person status in Hainan.

## 8. Administrative Measures of VAT Refund for International Transport Vessels

To regulate the administration of VAT refund for international transport vessels, the State Taxation Administration promulgated the Announcement on Promulgation of the Administrative Measures of VAT Refund for International Transport Vessels and the interpretation of the Announcement, which is applicable to vessels purchased by transport enterprises meeting the conditions specified in Article 1 of Cai Shui [2020] No. 41 or Article 1 of Cai Shui [2020] No. 52.

The Measures stipulates that transport enterprises subject to tax refund policy for vessels shall handle tax refund formalities for vessels to tax authorities in charge with documents including Tax Filing Form for Tax Reduction and Exemption for Export and Operation License for International Shipping and electronic data upon their first application for tax refund for vessels. Transport enterprises that have used the special VAT invoices obtained from the purchase of vessels for input tax credit shall not declare tax refund for vessels; special VAT invoices obtained from the purchase of vessels that have been used for tax refund for vessels shall not be used for input tax credit.

## 9. Plan for Adjustments on Tariff for 2021

To support and accelerate the construction of a new pattern of development, and promote the high-quality development of economy, the Customs Tariff Commission of the State Council promulgated the Notice on Plan for Adjustments on Tariff for 2021 (Shui Wei Hui [2020] No. 33), which stipulates import tariff adjustments for some commodities effective from January 1, 2021. Main content is as follows:

Tax Rate	Detailed Content
Most-Favored-Nation Tariff Rates	① From January 1, 2021, 883 items of commodities (excluding tariff quota commodities) shall be subject to import provisional tax rates. From July 1, 2021, import provisional tax rates for 9 items of Information technology products shall be cancelled. ② Starting from July 1, 2021, the sixth step tax reduction shall be implemented for the most-favored-nation tariff rate for information technology products listed in the appendix of the Amendment to the Schedule of Tariff Concessions for the Accession of the People's Republic of China to the World Trade Organization.
Tariff Quota Rate	Eight categories of commodities, such as wheat, shall continue to be subject to the tariff quotas, with the tariff rates unchanged. In particular, three types of fertilizers, namely, urea, compound fertilizer and ammonium





Tax Rate	Detailed Content
	hydrogen phosphate shall continue to be subject to a provisional tariff rate at 1% within the quota. Sliding duties shall still be levied on a certain amount of cotton imported beyond the quota and shall be adjusted appropriately.
Conventional Tariff and Special Preferential Rate	<ol style="list-style-type: none"> <li>① In accordance with the trade agreements or tariff preferential arrangements signed between China and the relevant countries or regions, in addition to the conventional tariff rates approved by the State Council for implementation, from January 1, 2021, the conventional tariff rates under the bilateral trade agreements between China and New Zealand, Peru, Costa Rica, Switzerland, Iceland, Australia, South Korea, Chile, Georgia and Pakistan as well as the Asia-Pacific Trade Agreement shall be further lowered down. In particular, some imported commodities with a country of origin in Mongolia shall be subject to the conventional tariff rate under the Asia-Pacific Trade Agreement. The conventional tariff rate shall be further lowered down from July 1, 2021 in accordance with the bilateral trade agreement between China and Switzerland as well as the Asian-Pacific Trade Agreement.</li> <li>② Some commodities with a country of origin in Mauritius shall be subject to the conventional tariff rate for the first year from January 1, 2021 in accordance with the China-Mauritius Free Trade Agreement.</li> <li>③ Where the most-favored-nation tariff rate is lower than or equal to the conventional tariff rate, if there is any provision stipulated in relevant agreement, the provision of the agreement shall prevail; otherwise, the lower one shall prevail.</li> <li>④ Least developed countries that have established diplomatic relations with China and have completed the exchange of notes shall continue to be entitled to special preferential rates, and the scope of commodities and the tax rates shall remain unchanged.</li> </ol>



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