



# China Tax Newsletter

**April 2019**

Our tax newsletter for this month covers:

1. Ministry of Finance Clarified the Accounting Treatment for the Additional Credit Policy .....	1
2. Preferential Tax Policies on Offering of Chinese Depository Receipts ("CDRs") by Innovative Enterprises.....	1
3. Preferential Tax Policies on Poverty Alleviation.....	2
4. State Taxation Administration Amended Enterprise Income Tax Return for Non-resident Enterprises.....	3
5. State Taxation Administration Adjusted Matters Concerning the Issuance of Certificates of Chinese Tax Resident .....	4



## 1. Ministry of Finance Clarified the Accounting Treatment for the Additional Credit Policy

On March 20, 2019, the Ministry of Finance, the State Taxation Administration, and the General Administration of Customs released the Announcement on Policies for Deepening the VAT Reform (Announcement [2019] No. 39 of the Ministry of Finance, the State Taxation Administration and the General Administration of Customs). It is stipulated in the announcement that from April 1, 2019 to December 31, 2021, taxpayers engaged in production or livelihood services are allowed to add 10% over the originally creditable input value-added tax (VAT) of the current period for offsetting against the tax payable (hereinafter referred to as the "Additional Credit Policy").

In order to clarify the accounting treatment for this policy, the accounting department of the Ministry of Finance released the Interpretation of the Relevant Issues Concerning the Application of the Regulations on Accounting Treatment of Value-added Tax to the Announcement on Policies for Deepening VAT Reform. It stipulated that for assets acquired or services accepted, taxpayers engaged in production or livelihood services shall make the accounting treatments for VAT related transactions in accordance with the Regulations on Accounting Treatment of Value-added Tax. When the VAT is actually paid, the tax payable is debited to the accounts such as "tax payable -- unpaid value-added tax", the tax amount actually paid is credited to the "bank deposit" account, and the additional credit amount is credited to the "other income" account.

## 2. Preferential Tax Policies on Offering of Chinese Depository Receipts ("CDRs") by Innovative Enterprises

In order to support the implementation of the innovation-driven development strategy, the Ministry of Finance, the State Taxation Administration, and the China Securities Regulatory Commission released the Announcement on Relevant Taxation Policies Applicable in the Pilot Program of Offering of Chinese Depository Receipts ("CDRs") by Innovative Enterprises (Announcement [2019] No. 52 of the Ministry of Finance, the State Taxation Administration and the China Securities Regulatory Commission). The main content is as follows:

Cases Applicable		Enterprise Investors	Managers of Public Securities Investment Fund	QFII & RQFII	Individual Investors
Gains derived by transferring CDRs offered by an innovative enterprise	Enterprise income tax	Whether payment of or exemption from enterprise income tax depending on policies relating to gains derived by transferring stocks	Temporarily exempt from enterprise income tax according to the taxation policies on public securities investment fund	Deemed as gains from equity asset transfer and whether payment of or exemption from enterprise income tax depending on policies relating to gains from equity asset transfer	
	Value-added tax	Whether payment of or exemption from value-added	Temporarily exempt from value-added tax in	Temporarily exempt from value-added tax	Temporarily exempt from value-added tax



Cases Applicable		Enterprise Investors	Managers of Public Securities Investment Fund	QFII & RQFII	Individual Investors
		tax depending on policies relating to financial product transfer	the forthcoming three years since the date of implementation of the pilot program		
	Individual income tax				Temporarily exempt from individual income tax in the forthcoming three years (36 months) since the date of implementation of the pilot program
	Stamp duty	In the coming three years since the date of implementation of the pilot program, sellers of CDRs issued by an innovative enterprise on the Shanghai Stock Exchange and Shenzhen Stock Exchange shall pay stamp duty at the rate of 0.1%.			
Dividends and bonuses received by holding CDRs offered by an innovative enterprise	Enterprise income tax	Whether payment of or exemption from enterprise income tax depending on policies relating to dividends and bonuses from stocks	Temporarily exempt from enterprise income tax according to the taxation policies on public securities investment fund	Deemed as dividends and bonuses received and whether payment of or exemption from enterprise income tax depending on policies relating to dividends and bonuses received	
	Individual income tax				Applicable to the differentiated individual income tax policies for dividends and bonuses in the forthcoming three years (36 months) since the date of implementation of the pilot program

### 3. Preferential Tax Policies on Poverty Alleviation

To support the poverty alleviation program, the Ministry of Finance, the State Taxation Administration and the State Council Leading Group Office of Poverty Alleviation and Development released the Announcement on the Pre-tax Deduction Policy for Donations Made by Enterprises for Poverty Alleviation for Enterprise Income Tax Purposes (Announcement [2019] No.49 of the Ministry of Finance, State Taxation Administration and the State Council Leading Group Office of Poverty Alleviation and Development) and the Announcement on the Value-added Tax Exemption Policy for Goods Donated for Poverty Alleviation (Announcement [2019] No.55 of the Ministry of Finance, the State Taxation Administration and the State Council Leading Group Office of Poverty Alleviation and Development). The main preferential policies are as follows:



#### (1) VAT exemption

From January 1, 2019 to December 31, 2022, where an entity or individual business donates goods produced by itself, processed by an entrusted party or purchased from others, either directly or through a nonprofit social organization, or the government at or above the county level or the internal department thereof or an agency directly affiliated therewith, to entities and individuals within the targeted regions for poverty alleviation, such goods will be exempt from VAT. The amount of VAT payments that have been collected into the state treasury before the release of this announcement, which should be exempted under the above-mentioned policy, may either be used to offset the VAT payable by the taxpayer for future months or be refunded out of the treasury. In the event of failing to take back the VAT special invoice, such goods shall not be exempted from VAT.

#### (2) Enterprise income tax deduction based on actual amounts of expenditure of donations

From January 1, 2019 to December 31, 2022, expenditure of donations made by an enterprise for poverty alleviation through non-profit social organizations or the government at or above the county level as well as its internal departments or directly-affiliated agencies to the targeted regions for poverty alleviation, are deductible, to the extent of the actual amounts, from its taxable income when the enterprise income tax is calculated. Where an enterprise concurrently incurs expenditure of poverty relief donations and expenditure of charitable donations made for other purposes, the expenditure of donations for poverty alleviation meeting the aforesaid criteria shall be excluded when the annual deductible quota is calculated for such charitable donations. In addition, for expenditure incurred by an enterprise between January 1, 2015 and December 31, 2018 that meets the aforesaid criteria, the above-mentioned enterprise income tax policy may apply, to the extent of the incurred amounts that have not yet been deducted when its taxable income is calculated for enterprise income tax purposes.

### **4. State Taxation Administration Amended Enterprise Income Tax Return for Non-resident Enterprises**

In order to further simplify and optimize the enterprise income tax return, the State Taxation Administration released the Announcement on Promulgating the Tax Return of the People's Republic of China for Advance Payments of Enterprise Income Tax by Non-resident Enterprises (2019 Edition) and Other Tax Returns (Announcement [2019] No.16 of the State Taxation Administration, hereinafter referred to as "Announcement"). The main content is as follows:

(1) The Tax Return of the People's Republic of China for Advance Payments of Enterprise Income Tax by Non-resident Enterprises (2019 Edition), together with its appendices, namely, the Distribution Statement for Consolidated Income Tax Payment Made for Entities and Premises of Non-resident Enterprises and the Breakdown of Tax Calculation Process based on Deemed Profit Rate for Entities and Premises of Non-resident Enterprises, is applicable where a non-resident enterprise prepays its enterprise income tax. The tax return takes effect when a non-resident enterprise declares its advance payment of enterprise income tax for the first



quarter of 2020. Where a non-resident enterprise makes consolidated tax payment for its entities or premises from 2019, the above-mentioned tax return takes effect when the enterprise declares its advance payment of enterprise income tax for the first quarter of 2019.

(2) Annual Enterprise Income Tax Return of the People's Republic of China for Non-resident Enterprises (2019 Edition), together with its appendices, namely, Breakdown of Tax Adjustment Items, Breakdown of Loss Recovery for Enterprise Income Tax Purpose, Annual Breakdown of Exploration and Development Expenses of Petroleum Exploitation Enterprises in Cooperation with Foreign Enterprises, the Distribution Statement for Consolidated Income Tax Payment Made for Entities and Premises of Non-resident Enterprises and the Breakdown of Tax Calculation Process based on Deemed Profit Rate for Entities and Premises of Non-resident Enterprises, takes effects when a non-resident enterprise declares its enterprise income tax final settlement for 2020. Where a non-resident enterprise makes consolidated tax payment for its entities or premises from 2018 or 2019, the above-mentioned tax return takes effect when the enterprise declares its enterprise income tax final settlement for 2018 or 2019.

(3) Report Table of the People's Republic of China on Withholding of Enterprise Income Tax (2019 Edition) will take effect from October 1, 2019. It is applicable to source-based withholding agents and designated withholding agents, as well as the taxpayers filing tax returns when the withholding agents fail to withhold taxes in accordance with relevant laws or are unable to perform their withholding obligations, for withholding enterprise income tax or filing enterprise income tax returns on a transaction basis or on schedule.

## **5. State Taxation Administration Adjusted Matters Concerning the Issuance of Certificates of Chinese Tax Resident**

In order to facilitate the reform on the individual income tax, the State Taxation Administration decided to adjust matters concerning the issuance of certificates of Chinese tax resident. The main changes are as follows:

(1) Adjusting the authority of issuing certificates of Chinese tax residents. Applicants shall make an application to the competent tax authorities for issuance of certificates of Chinese tax resident. Domestic and overseas branches of Chinese resident enterprises shall submit their application, by the headquarters in China, to the tax authorities in charge of their headquarters. Partnership enterprises shall submit their application, by a Chinese resident partner, to the tax authorities in charge of the aforesaid Chinese resident partner.

(2) Adjusting some issues concerning the issuance and simplifying some tax-related documents. Pursuant to the provisions of the newly amended Individual Income Tax Law of the People's Republic of China and its Implementation Regulations, the period of residence in China defined for a resident individual is changed from one year to 183 days. Accordingly, the State Taxation Administration adjusted and clarified documents required for application of the certificates of Chinese tax resident and simplified some tax-related documents so as to make them clearer.



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Jesse Wang

Partner, Tax and Advisory

Tel: +86-755-82900993

Mobile: +86-138 0883 9880

WeChat : see the QR code on the right

Email: [jesse.wang@bdo.com.cn](mailto:jesse.wang@bdo.com.cn) | [tax@bdo.com.cn](mailto:tax@bdo.com.cn)



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