



China Tax Newsletter

June 2020

Our tax newsletter for this month covers:

1. Enterprise Income Tax Incentives for Hainan Free Trade Port 1
2. Regulations on Pre-tax Deduction of Public Welfare Donations..... 2
3. Deferred Payment of Income Tax in 2020 by Small Low-profit Enterprises and Individual Businesses 2
4. Preferential Policies of “Two-Year Exemption and Three-Year 50% Reduction” for Integrated Circuit Design and Software Enterprises..... 3
5. Extending the Period of Implementation of Tax Policies to Support Epidemic Prevention and Control and to Ensure Supply..... 3
6. The Fourth Protocol of Taxation Arrangement between Mainland and Macau Takes Effect 5
7. Promulgation of the List of Head Offices and Branches of Air Transport Enterprises Requiring Consolidate Payment of Value-added Tax 6
8. Promulgation of the 16th Batch of Vehicle Types Eligible for Exemption and Reduction of Vehicle and Vessel Tax..... 6
9. China Securities Regulatory Commission Released Related System and Regulations on Reformation of ChiNext and Pilot Registration-based System..... 7



1. Enterprise Income Tax Incentives for Hainan Free Trade Port

The Central Committee of the Communist Party of China and the State Council promulgated the Overall Plan of Development of Hainan Free Trade Port on 1 June 2020, aiming to initially establish a policy system featuring freedom and convenience of trade and investment for free trade port by 2025. Meanwhile, taxation system accommodating a high-level free trade port is to be established step by step under the principles of zero tariff, low tax rate, simple tax system, strict rule of law and development stage by stage.

On 30 June 2020, the Ministry of Finance released enterprise income tax incentives to support the development of Hainan Free Trade Port, offering income tax incentives to enterprises established in Hainan Free Trade Port and talents working in Hainan Free Trade Port. The main content is as follows:

- ① Enterprises in the encouraged industries that are registered and operate substantially in Hainan Free Trade Port are applicable to the 15% low enterprise income tax rate.
- ② Income from new direct overseas investment by enterprises in tourism, modern service and high-tech industries established in Hainan Free Trade Port is exempt from enterprise income tax.
- ③ For enterprises established in Hainan Free Trade Port, if the unit value of newly purchased, self-establish or insourcing fixed assets or intangible assets (excluding tenement and construction) does not exceed RMB5 million, one-time pre-tax deduction for enterprise income tax purpose shall be allowed. If the unit value exceeds RMB5 million, enterprises can select the method of shortening the period of depreciation and amortization, or accelerating depreciation and amortization.
- ④ For high-end and urgently-needed talents working in Hainan Free Trade Port, where the actual individual income tax burden exceeds 15%, the part exceeding 15% is exempted.

Tax incentives above are valid from 1 January 2020 to 31 December 2024.

▲ Tips from BDO China

In principle, where enterprises registered in Hainan Free Trade Port, as resident enterprises within the territory of China, distribute dividends or bonuses to enterprises registered within Mainland China but outside Hainan Free Trade Port, enterprise income tax is supposed to be exempted for such distribution as per Article 26 of the Enterprise Income Tax Law of the People's Republic of China which stipulates that enterprise income tax is exempted for income from equity investment such as dividend and bonus distributed by a resident enterprise to another resident enterprise if certain conditions are met. Specific clarification is subject to followed-up regulations by related departments.



2. Regulations on Pre-tax Deduction of Public Welfare Donations

According to the Enterprise Income Tax Law of the People's Republic of China and its implementing regulations, where enterprises or individuals make donations for public welfare and charitable undertakings that comply with the provisions of the law through nonprofit social organizations or the people's governments at or above the county level and their departments, such donation expenditures are allowed to be deducted when the taxable income is calculated by tax law. Relevant vouchers shall be kept for future inspection.

When nonprofit social organizations or the people's governments at or above the county level and their departments receive donations from enterprises or individuals, the amount of donation shall be recognized according to the rules below:

Type of Donation Received	Amount of Donation
Monetary donations	The amount of donation received shall be recognized based on the actual amount received.
Non-monetary assets donations	The amount of donation received shall be recognized based on the fair value of the assets donated. (Donors shall provide a certificate to specify the fair value of the donated non-monetary assets; if such certificate cannot be provided, donees shall not issue donation vouchers to donors.)

Nonprofit social organizations mentioned herein include charitable organizations, other social organizations and civic groups established or registered by law which have obtained the qualification for pre-tax deduction of public welfare donations pursuant to the stipulated criteria and procedures. The Announcement by the Ministry of Finance, the State Taxation Administration and the Ministry of Civil Affairs on Matters concerning Pre-tax Deduction of Public Welfare Donations (Announcement of the Ministry of Finance [2020] No.27) applies to the recognition and management of the qualification for pre-tax deduction of public welfare donations for legally registered charitable organizations and other social organizations.

The qualification for pre-tax deduction of public welfare donations is valid nationally and the term of validity is three years. Departments of finance, taxation and civil affairs above the provincial level shall release the announcement on the list of nonprofit social organizations qualified for pre-tax deduction of public welfare donations on their official websites. Enterprises or individuals can search for the qualification of social organizations on pre-tax deduction of public welfare donations and the validity through the aforementioned channel.

3. Deferred Payment of Income Tax in 2020 by Small Low-profit Enterprises and Individual Businesses

To further support the resumption of production and work by small low-profit enterprises and individual businesses, the State Taxation Administration released the Announcement on Matters concerning the Deferred Payment of Income Tax in 2020



by Small Low-profit Enterprises and Individual Businesses. The main content is as follows:

- ① From 1 May 2020 to 31 December 2020, small low-profit enterprises may defer the payment of enterprise income tax for the current period after completing the filing of tax returns with prepayment in the remaining filing periods of 2020, and payment of the corresponding enterprise income tax amounts may be deferred to the first filing period in 2021. When filing tax returns with prepayment, small low-profit enterprises may enjoy the deferred payment of enterprise income tax for small low-profit enterprises through filling in related rows of the prepayment tax return forms.
- ② From 1 May 2020 to 31 December 2020, individual businesses may defer the payment of individual income tax on income from business operation for the current period after completing the filing of tax returns with prepayment in the remaining filing periods of 2020, and payment of the corresponding individual income tax may be deferred to the first declaration period in 2021. For individual businesses adopting the simplified tax filing method, individual income tax will not be debited temporarily for the period from 1 May 2020 to 31 December 2020 which will be debited in the first filling period in 2021.

4. Preferential Policies of “Two-Year Exemption and Three-Year 50% Reduction” for Integrated Circuit Design and Software Enterprises

Integrated circuit design enterprises and software enterprises established by law and meeting relevant requirements may calculate the preferential period from the profit-making year till 31 December 2019, and those enterprises will be exempt from enterprise income tax in the first and second years, will be allowed a 50% reduction of enterprise income tax at a statutory rate of 25% in the third to fifth years, and such reduction will be allowed until the end of the preferential period. Relevant requirements mentioned above are conditions stipulated in the Notice of the Ministry of Finance and the State Administration of Taxation on Enterprise Income Tax Policies for Further Encouraging the Development of Software and Integrated Circuit Industries (Cai Shui [2012] No.27) and the Notice of the Ministry of Finance, the State Administration of Taxation, the National Development and Reform Commission, the Ministry of Industry and Information Technology on Issues concerning Preferential Enterprise Income Tax Policies for Software and Integrated Circuit Industries (Cai Shui [2016] No.49).

5. Extending the Period of Implementation of Tax Policies to Support Epidemic Prevention and Control and to Ensure Supply

To support the epidemic prevention and control, enterprise relief and resumption of production and work, the implementation of some tax preferential policies supporting epidemic prevention and control and supporting the development of



economy and society will be extended to 31 December 2020. The main content is as follows:

Policy	Content of Concession	Related Tax
Announcement on Tax Policies to Support Prevention and Control of the Novel Coronavirus-Infected Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 8)	For manufacturers of key materials for epidemic prevention and control, a full refund of the incremental uncredited value-added tax (VAT) shall be allowed.	VAT
	Taxpayers are exempt from VAT on their income from transporting key materials for the epidemic prevention and control.	VAT
	The income of taxpayers from provision of public transportation services, living services and express delivery services involving necessities of residents shall be exempt from VAT.	VAT
	For manufacturers of key materials for epidemic prevention and control, their newly purchased equipment to expand production capacity is allowed for one-time pre-tax deduction for enterprise income tax purpose.	Enterprise Income Tax
Announcement on Tax Policies for Donations to Support Prevention and Control of the Novel Coronavirus-Infected Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Administration of Taxation [2020] No.9)	The longest period of loss carried forward extends to 8 years for industries and enterprises influenced tremendously by novel coronavirus in 2020.	Enterprise Income Tax
	Enterprises or individuals that donate cash or articles through nonprofit social organizations or the people's governments at or above the county level and their departments shall be allowed for a full deduction from the taxable income for enterprise income tax or individual income tax purpose.	<ul style="list-style-type: none"> o Enterprise Income Tax o Individual Income Tax
	Enterprises or individuals that directly donate articles to hospitals undertaking the mission of preventing and controlling novel coronavirus shall be allowed for a full deduction from taxable income for enterprise income tax or individual income tax purpose.	<ul style="list-style-type: none"> o Enterprise Income Tax o Individual Income Tax
Announcement on Individual Income Tax Policies to Support Prevention and Control of the Novel Coronavirus-Infected Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Administration of Taxation [2020] No.9)	Articles donated for prevention and control of the novel coronavirus for free shall be exempt from VAT, consumption tax, urban maintenance and construction tax, education surcharge and local education surcharge.	<ul style="list-style-type: none"> o VAT o Consumption Tax o Urban Maintenance and Construction Tax o Education Surcharge o Local Education Surcharge
	Temporary subsidies and bonuses under government specified standards obtained by medical personnel and epidemic prevention workers participating in prevention and control of the novel coronavirus	Individual Income Tax



Policy	Content of Concession	Related Tax
Coronavirus-Infected Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No.10)	coronavirus are exempt from individual income tax.	
	Medical articles for prevention and control of the novel coronavirus obtained by individuals from employees are exempt from individual income tax.	Individual Income Tax
Announcement on Exemption of Certain Administrative Charges and Governmental Funds in the Period of Prevention and Control of the Novel Coronavirus-Infected Pneumonia Epidemic (Announcement of the Ministry of Finance and the National Development and Reform Commission [2020] No.11)	Products for prevention and control of 2019-nCov under the emergency approval of medical equipment are exempt from the registration fee for medical equipment products.	None
	Medicines under special approval procedure for medicine which are for treatment and prevention of 2019-nCov-infected pneumonia are exempted from the registration fee for medicines.	None
	Airlines are exempted from civil aviation development fund.	None

6. The Fourth Protocol of Taxation Arrangement between Mainland and Macau Takes Effect

The Fourth Protocol of the Arrangement Between the Mainland and Macau Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income (hereinafter referred to as “the Fourth Protocol”) was officially signed on 28 November 2019 in Macau. The Fourth Protocol includes amendments to the Arrangement Between the Mainland and Macau Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income and related protocols (hereinafter referred to as “the Arrangement”). The main content is as follows:

Amended Item	Main Content
Preface	The preface after amendment justifies that the purpose of signing the Arrangement is to develop economic relationship between Mainland and Macau and strengthen cooperation on taxation affairs between Mainland and Macau. The function of the Arrangement is to eliminate double taxation and prevent no or shortage of tax collection caused by tax evasion.
Scope of Person Covered	The term of the transparent entity is added. The term specifies that in respect of entity or arrangement deemed completely or partly transparent according to taxation law at any contracting side, where tax treatment is applied by one side to income obtained by or through such entity or arrangement as income of the resident of that side, the income shall be considered as income of resident of that side and the other side shall allow tax arrangement benefits for that part of income.



Amended Item		Main Content
Resident		The rule of dual resident is amended. Entities except for individuals constituting resident of both contracting sides shall be considered only as a resident on one side for the purpose of applying the rules of the Arrangement.
Permanent Establishment	Permanent Agencies	After amendment, where a person representing enterprises carries out following activities in Mainland or Macau, including: <ul style="list-style-type: none"> - Entering into a contract frequently; or - Playing a leading role in the process of contract conclusion frequently (and the enterprise does not make substantive amendment on the contract concluded by related conventions) and the contract is conducted in the name of the enterprise; or - Involving the transfer of ownership or the granting of the right to use the asset owed or used by the enterprise; or - Involving service provided by the enterprise. Any activity conducted by the person for the enterprises shall be considered as the enterprises having permanent establishment in Mainland or Macau.
	Independent Agents	After amendment, where a person specially or nearly specially conducts activities representing one or multiple enterprises that are closely related, the person shall not be considered as an independent agent of any of those enterprises. Meanwhile, the definition of “enterprises closely related” is clarified.
Income Property	from	After amendment, income from transfer of shares or equity similar to shares (such as equity in partnership or trust) by resident on one side may be taxed on the other side if, at any time of the three-year period prior the transfer, over 50% of the value of these shares or share-similar equity comes directly or indirectly from the real estate located in the other side.
Determination of Qualification for Tax Arrangement Benefits		The article on determination of qualification for tax arrangement benefits (i.e. “test of the main purpose”) is added. If one of the main purposes of related arrangements or transactions by a taxpayer is to acquire preferential treatment, the preferential treatment shall not be allowed. The scope is extended from articles of dividends, interest, royalties and property income in the Third Protocol to all articles.
Adding Article of Governmental Investment		The article of governmental investment is added. Income of government on one side shall be exempt from tax on the other side if the income is obtained from funds established mainly for livelihood projects, invested by both sides and set up on the other side. Currently, the article applies to the Guangdong-Macau Cooperation Development Fund.

7. Promulgation of the List of Head Offices and Branches of Air Transport Enterprises Requiring Consolidate Payment of Value-added Tax

For details please refer to the Chinese version.

8. Promulgation of the 16th Batch of Vehicle Types Eligible for Exemption and Reduction of Vehicle and Vessel Tax

For details please refer to the Chinese version.



9. China Securities Regulatory Commission Released Related System and Regulations on Reformation of ChiNext and Pilot Registration-based System

On 12 June 2020, China Securities Regulatory Commission (CSRC) released Administrative Measures on Registration of Initial Public Offering of ChiNext (Trial Implementation) (Order of CSRC [2020] No.167), Administrative Measures on Registration of Issuance of Securities by Listed Companies on ChiNext (Order of CSRC [2020] No.168), Continuous Supervision and Regulation of Listed Companies on ChiNext (Trial Implementation) (Order of CSRC [2020] No.169) and Administrative Measures on Sponsorship for Issuance and Listing of Securities (Order of CSRC [2020] No.170). Meanwhile, CSRC, Shenzhen Stock Exchange, China Securities Depository and Clearing Corporation Limited and Securities Association of China released related rules corresponding to the measures. Initial public offering and listing on ChiNext should meet requirements on issuance, listing and related information disclosure, duly approved by the Exchange on issuance and listing, and registered on CSRC.



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:

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



| tax@bdo.com.cn

BDO China Shu Lun Pan Certified Public Accountants LLP, and Lixin Certified Tax Agents Co., Ltd, a Chinese LLC, are members of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

BDO is the brand name for the BDO network and for each of the BDO Member Firms.