



China Tax Newsletter

March 2021

Our tax newsletter for this month covers:

1. Revision on Tax Return of the People's Republic of China for Monthly (Quarterly) Prepayment of Enterprise Income Tax (Category A) 1
2. "Zero-tariff" Policies for Self-use Production Equipment in Hainan Free Trade Port 1
3. More Detailed Definition of "Substantive Operation" for Tax Preference in Hainan Free Trade Port..... 2
4. Extension of Execution Duration for Some Tax Preferential Policies..... 3
5. Notice on Effective Implementation of the Measures for Use of Motor Vehicle Invoices 7
6. Expansion of Pilot Scheme for Retailing Import by Cross-border E-Commerce and Strict Implementation of Requirement on Supervision and Administration 7
7. Promoting and Ensuring Administrators to Perform Duties Pursuant to Law in Bankruptcy Procedures to Further Optimize Business Environment 8



1. Revision on Tax Return of the People's Republic of China for Monthly (Quarterly) Prepayment of Enterprise Income Tax (Category A)

To relieve the burden of taxpayers, the State Taxation Administration promulgated the Announcement on Revision on Tax Return of the People's Republic of China for Monthly (Quarterly) Prepayment of Enterprise Income Tax (Category A) (Announcement of the State Taxation Administration [2021] No. 3), which simplifies the tax return for prepayment of enterprise income tax. The new tax return adopts the design idea of "filling by category". Most enterprises may only need to fill in the main form and complete the tax filing through filling in relevant detailed matters on the main form, which further relieves the burden of tax handling. Resident enterprises subject to levying based on accounts that prepay enterprise income tax monthly shall commence to use the new form from the filing period of March 2021; Resident enterprises subject to levying based on accounts that prepay enterprise income tax quarterly shall commence to use the new form from the filing period of the first quarter of 2021.

2. "Zero-tariff" Policies for Self-use Production Equipment in Hainan Free Trade Port

To fully implement the Overall Plan for the Construction of Hainan Free Trade Port, the Ministry of Finance, the General Administration of Customs and the State Taxation Administration promulgated the Notice on "Zero-tariff" Policies for Self-use Production Equipment in Hainan Free Trade Port (Cai Guan Shui [2021] No. 7, hereinafter referred to as "Notice No. 7"). The main content is as follows:

- ① Before closing the Customs of the whole island, self-use production equipment imported by enterprises registered in Hainan Free Trade Port with the qualification of independent legal person shall be exempted from tariff, value-added tax (VAT) and consumption tax in the step of import, except for the goods forbidden to be imported by the State and those not entitled to tax exemption as per laws, legislation and relevant regulations, as well as the equipment listed in the negative list in the attachment of the Notice No. 7.
- ② The Notice No. 7 defines production equipment. Production equipment refers to equipment for production and operation activities including infrastructure construction, processing and manufacturing, research and development and design, detection and maintenance, logistics and warehousing, medical service as well as recreation, sports and tourism.
- ③ Qualified enterprises that import equipment in the scope of the Catalogue of Key Technical Equipment and Products not Entitled to Tax Exemption in Import, the Catalogue of Imported Goods not Entitled to Tax Exemption for Foreign-funded Projects and the Catalogue of Imported Goods not Entitled to Tax Exemption for Domestic-funded Projects, shall be temporarily applicable to the above "zero-tariff" policies and be exempted from tariff, VAT and consumption tax in the step of import.



In addition, the General Administration of Customs promulgated the Announcement on Promulgation of Measures by the Customs on Implementation of the “Zero-tariff” Policies for Self-use Production Equipment in Hainan Free Trade Port (Trial) (Announcement of the General Administration of Customs [2021] No. 23) on the same day, which clarifies relevant matters of the Notice No. 7 from the perspective of implementation by the Customs, such as the recognition of qualified enterprises, requirements of the Customs on the declaration of imported self-use production equipment, and other formalities that qualified enterprises shall complete.

3. More Detailed Definition of “Substantive Operation” for Tax Preference in Hainan Free Trade Port

To prevent Hainan from becoming the tax heaven of some enterprises in Mainland, the Ministry of Finance and the State Taxation Administration promulgated the Notice on Preferential Policies for Enterprise Income Tax in Hainan Free Trade Port (Cai Shui [2020] No. 31, hereinafter referred to as “Notice No. 31”), which defines the basic concept of substantive operation. The Notice No. 31 is applicable to resident enterprises registered in Hainan Free Trade Port, branches established in Hainan Free Trade Port by resident enterprises, as well as offices and premises in Hainan Free Trade Port established by non-resident enterprises. The Notice No. 31 defines different circumstances where an enterprise engaged in projects of encouraged industries in Hainan Free Trade Port can be recognized as having substantive operation, details as follows:

Circumstance	Identification Condition of “Substantive Operation”
A. Resident enterprises registered in Hainan Free Trade Port with no branch established outside Hainan Free Trade Port	Where all items including production and operation, personnel, accounting and assets of an enterprise are in Hainan Free Trade Port, it shall be regarded as having substantive operation in Hainan Free Trade Port. Where one of the above four items of a resident enterprise is not in Hainan Free Trade Port, it shall not be regarded as having substantive operation in Hainan Free Trade Port and not be applicable to the preferential policies for enterprise income tax in Hainan Free Trade Port.
B. Resident enterprises registered in Hainan Free Trade Port with branch(es) established outside Hainan Free Trade Port	Where the head office in Hainan Free Trade Port carries out substantive and comprehensive administration and control over production and operation, personnel, accounting and assets of its branch(es), it shall be regarded as having substantive operation in Hainan Free Trade Port.
C. Resident enterprises registered outside Hainan Free Trade Port with branches established in Hainan Free Trade Port	Where the branches, or the offices or the premises perform the function of production and operation, and the operating revenue, wages and salaries of employees and total assets match the requirements of production and operation, they shall be regarded as having substantive operation in Hainan Free Trade Port.
D. Non-resident enterprises with offices or premises established in Hainan Free Trade Port	

Preferential policies for enterprise income tax in Hainan Free Trade Port is only applicable to entities established by resident enterprises in Hainan Free Trade Port. Therefore, resident enterprises under circumstances B and C shall calculate the



taxable income uniformly, apportion between the head office and relevant branches and only the taxable income apportioned to the head office or branches in Hainan Free Trade Port shall be subject to the preferential tax rate of 15%.

In addition, the Notice No. 31 defines the requirements of retaining documents for future reference. Enterprises qualified for substantive operation and enterprise income tax preferential policies for encouraged industries in Hainan Free Trade Port shall collect, arrange and retain relevant materials for verification and check of tax authorities after the completion of annual enterprise income tax final settlement based on the Announcement on Relevant Matters on Preferential Policies for Enterprise Income Tax in Hainan Free Trade Port (Announcement of the State Taxation Administration [2020] No. 4).

4. Extension of Execution Duration for Some Tax Preferential Policies

To further support the development of small and micro enterprises, scientific and technological innovation, and relevant social undertakings, the Ministry of Finance and the State Taxation Administration promulgated the Announcement on Extension of Execution Duration for Some Tax Preferential Policies (Announcement of the Ministry of Finance and the State Taxation Administration [2021] No. 6), with extension of relevant tax policies as follows:

- ① Tax preferential policies stipulated in 16 circulars, such as the Notice on Enterprise Income Tax Deduction Policies Relating to Equipment and Instruments (Cai Shui [2018] No. 54), that have expired shall be extended to December 31, 2023.
- ② Tax preferential policies stipulated in the Notice on Extension of Preferential Policies for Value-added Tax, Real Estate Tax, and Urban and Township Land Use Tax for Heat-supply Enterprises (Cai Shui [2019] No. 38) shall be extended to the end of the heat-supply period in 2023.
- ③ Tax preferential policies stipulated in the Notice on Tax Preferential Policies for Relocation from Inhospitable Areas for Poverty Alleviation (Cai Shui [2018] No. 135) and the Notice on Preferential Policies for Individual Income Tax in Ping Tan Comprehensive Pilot Zone, Fujian Province (Cai Shui [2014] No. 24) shall be extended to December 31, 2025.
- ④ Pre-tax deduction of provisions for enterprise income tax purpose stipulated in 6 circulars, such as the Notice on Relevant Policies on Pre-tax Deduction of Provision Expenditures of Insurance Enterprises for Enterprise Income Tax Purpose (Cai Shui [2016] No. 114) shall continue to be executed after expiration.

In addition, to further support prevention and control of epidemic, and help enterprises overcome difficulties and continue to develop, the Ministry of Finance and the State Taxation Administration promulgated the Announcement on Extension of Some Tax and Surcharge Preferential Policies for Epidemic Control (Announcement of the Ministry of Finance and the State Taxation Administration [2021] No. 7), with extension of relevant tax and surcharge preferential policies as follows:



- ① The execution duration of tax preferential policies stipulated in the Announcement on VAT Policies for Supporting Individual Businesses in Resumption of Work and Production (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 13) shall be extended to December 31, 2021. In particular, from April 1, 2021 to December 31, 2021, the taxable sales income of small-scale VAT taxpayers in Hubei Province originally subject to tax rate of 3% shall be subject to the reduced tax rate of 1% for VAT; items subject to VAT prepayment at the rate of 3% shall be subject to the reduced prepayment tax rate of 1% for VAT.
- ② Where tax preferential policies stipulated in the Announcement on Individual Income Tax Policies to Support Prevention and Control of Novel Coronavirus Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 10) and the Announcement on Supporting Policies on Tax and Surcharge for Industries including Movie Industry (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 25) have expired, the execution duration shall be extended to December 31, 2021.
- ③ Where tax preferential policies stipulated in the Notice on Tax Policies for Prevention and Control of Novel Coronavirus Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 8) and the Announcement on Tax Policies for Donations to Support Prevention and Control of Novel Coronavirus Pneumonia Epidemic (Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 9) have expired, the execution duration shall be extended to December 31, 2021.
- ④ The taxes and surcharges collected from January 1, 2021 till the promulgation of the Announcement that shall be reduced or exempted according to the Announcement may be offset against the taxes and surcharges payable of taxpayers or payers in the future or be refunded.

The extended durations of the above tax preferential policies are shown in the following table;

No.	Circular Name	Circular Number	Extended Execution Duration
1	Notice on Enterprise Income Tax Deduction Policies Relating to Equipment and Instruments	Cai Shui [2018] No. 54	Extension to December 31, 2023
2	Notice on Increase in Proportion of Additional Pre-tax Deduction of Research and Development Expenses	Cai Shui [2018] No. 99	
3	Notice on Exemption of VAT on Interest Income of Financial Institutions from Loans to Small and Micro Enterprises	Cai Shui [2018] No. 91	
4	Notice on Extension of VAT Policies for Animation Industry	Cai Shui [2018] No. 38	



No.	Circular Name	Circular Number	Extended Execution Duration
5	Notice on Relevant Matters on Tax Policies for Guarantee Fund of Insurance	Cai Shui [2018] No. 41	
6	Notice on VAT Policy on Agricultural Loans of Rural Finance Division of Postal Savings Bank of China	Cai Shui [2018] No. 97	
7	Announcement on Preferential Tax Policies for Public Rental Housing	Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 61	
8	Announcement on Continued Implementation of Tax Preferential Policies for Rural Drinking-water Safety Projects	Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 67	
9	Announcement on Continued Implementation of VAT Exemption Policies for Domestic Anti-HIV Drugs	Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 73	
10	Announcement on Continued Implementation of VAT Policies for Equipment Procurement by R&D Institutions	Announcement of the Ministry of Finance, the Ministry of Commerce and the State Taxation Administration [2019] No. [2019] No. 91	
11	Announcement on Tax Policies for Civil Aero-engines, New Feeder Aircrafts and Large Passenger Aircrafts	Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 88	
12	Notice on Policies including VAT Exemption for Pension Institutions	Cai Shui [2019] No. 20	
13	Notice on Tax Policies to Support Financing of Small and Micro Enterprises	Cai Shui [2017] No. 77	
14	Notice on Tax Policies to Support the Opening Up of Futures Markets for Crude Oil and Other Commodities	Cai Shui [2018] No. 21	
15	Notice on Resource Tax Reduction for Shale Gas	Cai Shui [2018] No. 26	
16	Notice on Vehicle Purchase Tax Reduction for Trailers	Announcement of the Ministry of Finance, the State Taxation Administration and the Ministry of Industry and Information Technology [2018] No. 69	



No.	Circular Name	Circular Number	Extended Execution Duration
17	Notice on Extension of Preferential Policies for VAT, Real Estate Tax, and Urban and Township Land Use Tax for Heat-supply Enterprises	Cai Shui [2019] No. 38	Extension to the end of the heat-supply period in 2023
18	Notice on Tax Preferential Policies for Relocation from Inhospitable Areas for Poverty Alleviation	Cai Shui [2018] No. 135	Extension to December 31, 2025
19	Notice on Preferential Policies for Individual Income Tax in Ping Tan Comprehensive Pilot Zone, Fujian Province	Cai Shui [2014] No. 24	
20	Notice on Relevant Policies on Pre-tax Deduction of Provision Expenditures of Insurance Enterprises for Enterprise Income Tax Purpose	Cai Shui [2016] No. 114	
21	Notice on Enterprise Income Tax Policies for Pre-tax Deduction of Provisions by Financing (Credit) Guarantee Institutions for Small and Micro Enterprises	Cai Shui [2017] No. 22	Continued implementation after expiration
22	Notice on Issues Relating to Pre-tax Deduction of Provision Expenditure of Securities Industry for Enterprise Income Tax Purpose	Cai Shui [2017] No. 23	
23	Notice on Issues Relating to Pre-tax Deduction Policy of Risk Provision and Guarantee Fund for Future Investors for Enterprise Income Tax Purpose of the Shanghai International Energy Exchange Center	Cai Shui [2019] No. 32	
24	Announcement on Pre-tax Deduction Policies Relating to Loan Loss Provision of Financial Enterprises for Agriculture-related Loans and Loans to Small and Medium-sized Enterprises	Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 85	
25	Announcement on Pre-tax Deduction Policies on Loan Loss Provisions of Financial Enterprises for Enterprise Income Tax	Announcement of the Ministry of Finance and the State Taxation Administration [2019] No. 86	
26	Announcement on VAT Policies for Supporting Individual Businesses in Resumption of Work and Production	Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 13	Extension to December 31, 2021
27	Announcement on Tax Policies to Support Prevention and Control of Novel Coronavirus Pneumonia Epidemic	Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 8	



No.	Circular Name	Circular Number	Extended Execution Duration
28	Announcement on Tax Policies for Donations to Support Prevention and Control of Novel Coronavirus Pneumonia Epidemic	Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 9	
29	Announcement on Individual Income Tax Policies to Support Prevention and Control of Novel Coronavirus Pneumonia Epidemic	Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 10	
30	Announcement on Supporting Policies on Tax and Surcharge for Industries including Movie Industry	Announcement of the Ministry of Finance and the State Taxation Administration [2020] No. 25	

5. Notice on Effective Implementation of the Measures for Use of Motor Vehicle Invoices

To ensure the stable implementation of the Measures for Use of Motor Vehicle Invoices (Announcement of the State Taxation Administration, the Ministry of Industry and Information Technology, and the Ministry of Public Security [2020] No. 23), the State Taxation Administration promulgated the Notice on Effective Implementation of Measures for Use of Motor Vehicle Invoices (Shui Zong Han [2021] No. 42). From May 1, 2021, the new version of the uniform invoices for sale of motor vehicles will commence to be used. Motor vehicle enterprises may continue to issue invoices using the old version of the uniform invoices for sale of motor vehicles before December 31, 2021. Tax authority at each locality shall complete the verification of the old version invoices and the destruction of the unused invoices of old version. To ensure the stable transition from the old version to the new version of invoices, tax authorities at each level shall print, produce and supply new version of invoices per the existing stipulations and complete the destruction of the old version of invoices before the end of April 2022.

6. Expansion of Pilot Scheme for Retailing Import by Cross-border E-Commerce and Strict Implementation of Requirement on Supervision and Administration

Upon the approval of the State Council, the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Finance, the General Administration of Customs, the State Taxation Administration and the State Administration for Market Regulation jointly promulgated the Notice on Expansion of Pilot Scheme for Retailing Import by Cross-border E-Commerce and Strict Implementation of the Supervision and Administration Requirements (Shang Cai Fa [2021] No. 39), with notice of relevant tasks as follows:

- ① Pilot scheme for retailing import by cross-border e-commerce shall be expanded



to all pilot free trade zones, comprehensive pilot zones for cross-border e-commerce, comprehensive bonded zones, demonstration pilots for promotion and innovation of import trade, and cities (and regions) where bonded logistics center (type B) is located. Relevant cities (regions), upon confirmation by the Customs at the locality on meeting supervision and administration requirements, may carry out online shopping business on bonded import (Supervision Code of the Customs 1210) subject to the Notice of the Ministry of Commerce, the National Development and Reform Commission, the Ministry of Finance, the General Administration of Customs, the State Taxation Administration and the State Administration for Market Regulation on Relevant Tasks on Improving Supervision and Administration of Import Retail of Cross-border E-commerce (Shang Cai Fa [2018] No. 486).

- ② Each pilot city (region) shall fully take the main responsibility for the task of the pilot of import retail policy for cross-border e-commerce at the locality, fully implement the requirements on supervision and administration, strengthen the prevention and control of quality safety risks, timely ban the illegal activities such as “shopping bonded goods online + self-pickup offline” and resale outside the special supervision zone of the Customs, ensure smooth implementation of pilot task, jointly improve the normative, healthy and sustainable development of the industry.

7. Promoting and Ensuring Administrators to Perform Duties Pursuant to Law in Bankruptcy Procedures to Further Optimize Business Environment

To promote and ensure administrators to perform their duties pursuant to laws, improve the efficiency of bankruptcy procedures, and solve the problem of difficult exit of enterprises, the National Development and Reform Commission, the Supreme People’s Court, the Ministry of Finance, the Ministry of Human Resources and Social Security, the Ministry of Natural Resources, the Ministry of Housing and Urban-Rural Development, the People’s Bank, the State-owned Assets Supervision and Administration Commission, the General Administration of Customs, the State Taxation Administration, the State Administration for Market Regulation, the China Banking and Insurance Regulatory Commission and the China Securities Regulatory Commission jointly promulgated the Opinions on Promoting and Ensuring Administrators to Perform Duties Pursuant to Law in Bankruptcy Procedures to Further Optimize Business Environment (Fa Gai Cai Jin Gui [2021] No. 274). In particular, the main content on handling of tax-related matters for the convenience of bankrupt enterprises is as follows:

- ① To ensure the necessary invoice supply for bankrupt enterprises

Enterprises in bankruptcy procedures shall be under tax administration of tax authorities. Where administrators are responsible for managing enterprise property and business affairs, administrators shall perform relevant taxpaying duties pursuant to law on behalf of the bankrupt enterprises. Where bankrupt enterprises need to use invoices due to fulfillment of contract, property disposal or continuing business, administrators may apply to and claim from tax authorities and issue invoices in the



name of the taxpayers.

② To verify and write off shortfall tax payment of bankrupt enterprises pursuant to laws

Departments including tax authorities and customs, after receiving compensation pursuant to laws for principal of shortfall tax payment, overdue fine and penalty from bankrupt enterprises in the procedure of bankruptcy liquidation, shall transfer principal of shortfall tax payment, overdue fine and penalty into Treasury subject to the compensation ratio specified in the property distribution plan approved by the people's court, and verify and write off the outstanding principal of shortfall tax payment, overdue fine and penalty.

③ For the convenience of tax deregistration

Where an enterprise is judged by the people's court to declare bankruptcy and administrators apply for tax deregistration with the written order of the people's court to terminate bankruptcy liquidation procedures, tax authorities shall issue the certificate of tax settlement immediately, verify and cancel taxes payable by the deceased taxpayers pursuant to relevant stipulations. Tax authorities shall not require additional supporting documents in violation of regulations or refuse to handle for the reason that tax payments are not paid in full.

④ To support enterprises repairing taxpaying credit

In the procedure of restructuring or conciliation, after tax authorities receive compensation pursuant to laws, administrators or bankrupt enterprises may apply to tax authorities to resume the taxpaying credit. The tax authorities shall evaluate their taxpaying credit level in accordance with the approved plan for restructuring or the written order on recognition of conciliation agreement issued by the people's court.

⑤ To implement pre-tax deduction policy for income tax in restructuring and conciliation

Regarding the result of asset disposal of bankrupt enterprises, asset loss confirmed or derived from restructuring plan and conciliation agreement judged and approved or recognized by the people's court shall be eligible for asset loss deduction pursuant to the tax laws.



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, Lixin Certified Tax Agents Co., Ltd and Shenzhen WebTax Limited to discuss these matters in the context of your particular circumstances. BDO China Shu Lun Pan Certified Public Accountants LLP, Lixin Certified Tax Agents Co., Ltd, Shenzhen WebTax Limited, 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

Or

WebTax

Download WebTax App: scan the QR code on the right

Service Hotline: +86-4008-12366-3

Service Email: info@WebTax.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.

WebTax APP, being the first high-end platform in China for professional accounting and tax consulting services, connect the accounting and tax experts around the globe to provide users with professional, authoritative, comprehensive and timely accounting and taxation information and online accounting and tax consultation.