

China Insight – Chinese Tax Regulation Update



Dear Sir or Madam,

Please find enclosed our update on the latest developments on Chinese Tax Law.

Kind regards,

CMS, China

Circular Number	Issuance Date	Effective Date	Topic	What is new?
Cai Guan Shui [2021] No. 4 jointly released by the Ministry of Finance ("MOF"), the State Administration of Taxation ("SAT") and the General Administration of Customs ("GAC")	2021-03-16	2020-07-27	Import tax policies that support the development of integrated circuit industry and software industry	<p>This Circular provides a series of import tax incentives for the encouraged integrated circuit industry and the software industry. The key points that are worth attention of the Circular mainly include the following:</p> <ul style="list-style-type: none"> • The following activities shall be exempt from import tariffs: <ul style="list-style-type: none"> (a) Logic circuit and memory manufacturers producing integrated circuits whose line width is below 65 nanometers and integrated circuit manufacturers that adopt featured crafts (i.e., analog, digital-analog hybrid, high voltage, radio frequency, power, photoelectric integration, image sensing, micro-electromechanical system, and silicon-on-insulator process) to produce the integrated circuits whose line width is below 0.25 micrometers import for self-use in production and research and development ("R&D") raw materials, consumables, special construction materials for cleanrooms, support systems and spare parts of integrated circuit production equipment (including imported and domestic equipment) that cannot be produced in China or that cannot meet performance demand when produced in China; (b) Compound integrated circuit manufacturers producing integrated circuits whose line width is below 0.5 micrometers and

				<p>advanced integrated circuit packaging and testing companies import for self-use in production and R&D raw materials and consumables that cannot be produced in China or that cannot meet performance demand when produced in China;</p> <p>(c) Manufacturers of key raw materials and spare parts (i.e., target, photoresist, mask, packaging substrate, polishing pad, polishing liquid, 8-inch and above silicon single crystal, and 8-inch and above silicon wafer) for the integrated circuit industry import for self-use in production and R&D raw materials and consumables that cannot be produced in China or that cannot meet performance demand when produced in China;</p> <p>(d) Manufacturers of photoresist, mask and 8-inch and above silicon wafer for integrated circuits import special construction materials for cleanrooms, support systems and spare parts of integrated circuit production equipment (including imported and domestic equipment) that cannot be produced in China or that cannot meet performance demand when produced in China;</p> <p>(e) State-encouraged key integrated circuit design companies, state-encouraged key software companies and companies in the first two situations above (integrated circuit manufacturers and advanced integrated circuit packaging and testing companies) import self-use equipment and the auxiliary technology (including software), components and spare parts according to the contract, unless prohibited otherwise.</p> <ul style="list-style-type: none"> • Companies undertaking major integrated circuit projects and importing new equipment can pay import VAT on instalments in six years after importing the first equipment, unless prohibited otherwise, if they provide a guarantee for the unpaid taxes that the Customs acknowledges. In every 12 consecutive months of those six years, they must pay respectively 0%, 20%, 20%, 20%, 20% and 20% of the total import VAT. • The Announcement shall be implemented from July 27, 2020 to December 31, 2030.
Announcement [2021] No. 11 jointly released by the MOF and the SAT	2021-03-31	2021-04-01	Increase of the threshold of taxable turnover for VAT purposes for small-scale VAT payers	From April 1, 2021 to December 31, 2022, small-scale VAT payers with monthly turnover no higher than RMB 150,000 (as opposed to RMB 100,000 provided by the superseded policy) are exempt from VAT.
Announcement [2021] No. 3 jointly released	2021-03-31	2021-01-01	More preferential policy of R&D	The Announcement provides a more preferential policy of R&D cost super-deduction for PRC CIT purposes than the policy given by the PRC CIT Law.

by the MOF and the SAT			cost super-deduction for Corporate Income Tax ("CIT") purposes	<p>The key points that are worth attention of the Announcement mainly include the following:</p> <ul style="list-style-type: none"> Starting from January 1, 2021, manufacturing enterprises are allowed to deduct an additional cost equalling 100% of the R&D cost incurred from taxable incomes for CIT purposes. The super-deduction rate of 100% is already twice the rate of 50% secured by the PRC CIT Law. If the aforesaid R&D costs are capitalized as the company's intangible asset, the company can deduct 200% of the amortization of the intangible asset for CIT purposes for each period. When an enterprise prepays and declares provisional CIT for the third quarter of the current year or for September of the current year, it may, at sole discretion, choose to enjoy the R&D cost super-deduction policy for the first half of the current year based on self-assessment. If such preferential policy is not enjoyed during the prepayment period, qualified enterprises can also enjoy the policy when performing annual CIT declaration for the current year.
Announcement [2021] No. 10 jointly released by the MOF and the SAT	2021-03-22	2021-01-01	Extension of the preferential VAT policies for cultural publicity	The Announcement extends the expiry date of the preferential tax policies provided by the circular Cai Shui [2018] No. 53 from December 31, 2020 to December 31, 2023. The preferential policies and the conditions for qualifying for the policies all remain unchanged.

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