

China Business Advisory

2020 Issue 12

December 2020

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Improved Withholding Method for Individual Income Tax

On 4th December 2020, State Administration of Taxation (“SAT”) issued Announcement [2020] No. 19 - "Improved Withholding Method for Individual Income Tax (“IIT”)" in an effort to provide further support to steady employment,

encourage consumption, and easing tax burden for individuals.

IIT would not be payable/withheld when the accumulative annual taxable income does not exceed RMB60,000 for the following two groups of individuals:

1. Resident taxpayers whose IIT has been withheld every month in the last full fiscal year by the same employer; and
2. Resident taxpayers who have been paying IIT for service income in accordance with the cumulative withholding method by the same enterprise.

This announcement will take effect from 1st January 2021. Employers and Enterprise who act as legal IIT withholding agents, should plan for implementation of the new rules:

- ◆ Review and analyze IIT filing data and identify eligible individuals who meet the criteria;

- ◆ Upgrade internal payroll and IIT return processing procedures to ensure proper compliance; and
- ◆ Follow up the implementation in 2021 and onwards to make sure that IIT are properly withheld in accordance with the new rules.

Renewal of Tax Deduction Limit for Advertisement and Business Promotion Expenses

On 27th November 2020, Ministry of Finance (“MOF”) and SAT jointly issued Announcement [2020] No. 43 - "Issues relating to Tax Deduction of Advertisement and Business Promotion Expenses" which will be effective from 1st January 2021 to 31st December 2025.

The general advertisement and business promotion expenses limit stipulated by relevant regulation is 15% of annual revenue while some exceptions were set by Caishui [2017] No. 41, which covers the period from 2015 to 2020 and now is replaced by Announcement [2020] No. 43 to renew for another five years from 2021 to 2025. The exceptions are:

- ◆ a 30% limit is set for enterprises which manufacture or sell cosmetics, produce pharmaceuticals or beverages (excluding alcoholic ones), the excess expenditure could be carried forward for deduction in subsequent tax years;
- ◆ Related enterprises can sign advertisement and business promotion expenditure sharing agreements and share part or all pertinent expenses within its own deduction limit, with another related party for deduction in accordance with the agreements and the amounts deducted will not be included in the deduction limit of the other related party; and
- ◆ For tobacco companies, no tax deduction shall be allowed for advertisement and business promotion expenses.

Amendments to Measures for the Administration of Fiscal Receipts

On 3rd December 2020, MOF released Decree [2020] No. 104 - “Amendments to Measures for the Administration of Fiscal Receipts” to address legal status of fiscal electronic receipts issued by governmental departments, institutions or social and other organizations providing public services.

The key amendments are listed as below.

- ◆ Clarify that fiscal electronic receipts and paper receipts have the same legal effect, and the management process should be standardized.
- ◆ Cancel non-tax revenue special receipts and fixed income receipts in accordance with the practice of reforming the management of fiscal electronic receipts.
- ◆ To implement unified management of fiscal receipts, and unified national pattern, coding rules and electronic receipt data standards for fiscal receipts.
- ◆ Cancelling charges for certification, articles for anti-counterfeiting and producing receipts while introducing convenience measures for recipients.

These measures will take effect from 1st January 2021.

Service Highlight

It is evident that the Chinese government is putting continuous effort to create a business environment that is more open and relaxed. Also, the Chinese government keeps improving the domestic regulations and simplifying the administrative processes to lighten the compliance requirements for foreign investors.

We are committed to providing clients with advice on how to leverage on the changes in the business environment of China. Our Marketing Executive, Ms. Miumiu Chan, would like to hear from you at (852) 3579 8745 or miumiuchan@sinobridge-consulting.com to learn of how we could assist you with your business.

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