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Consulting Group

China Business Advisory

2021 Issue 7 July 2021

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Renewal of VAT Refund Policy for Procurement of Domestic Equipment by R&D Institutions

In order to promote the enthusiasm of enterprises in research and development ("R&D") and reinforce the support to taxpayers, State Taxation Administration ("STA") issued Announcement [2021] No. 18 on 22nd June 2021 to renew the existing VAT refund incentive, which has expired at the end of last year, for purchasing domestic equipment for three years, i.e. from 1st January 2021 to 31st December 2023.

Eligible R&D institutions include domestic institutions and foreign R&D institutions. Domestic-funded institutions include various research centers, research institutes, colleges and universities. For foreign-funded R&D institutions to be eligible, the following criteria need to be met:

Date of establishment	Before 1st Oct 2009	After 1st Oct 2009
Type of enterprise	Corporate capacity / Unincorporated	
Aggregate investment / Total R&D investment	≥USD 5M	≥USD 8M
Annual R&D expenditure	≥RMB 10M	N/A
Full-time scientific research personnel	≥90	≥150.
Accumulated original value of purchased equipment	≥RMB 10M	≥RMB 20M

The annual R&D expenditure refers to the average annual expenditure for the most recent two accounting years (or any continuous 12 months if less than two complete accounting years). Cash and physical assets investment should comprise not less than 60% of the total expenditure.

Domestic equipment eligible for VAT refund refer to special equipment for science and technology development, scientific research and teaching.

Declaration form, equipment purchase contracts and VAT invoices, are required for VAT refund application.

VAT special invoices must be confirmed on the integrated service platform as "for export tax rebate", and the VAT general invoice must be issued from 1st January 2021 to 22nd June 2021 (date of issue of the Announcement).

Tax refund could be filed from the month after the purchase date indicated on the invoice to 30th April of the following year.

If the ownership of the equipment, which has enjoyed VAT refund, is transferred or the equipment is used for other purposes within 3 years from the date of the VAT invoice, the VAT refund shall be returned to the tax authority after taking into account depreciation.

Further Simplified Procedures for Tax Filing of Outbound Services Payments

In order to further implement and deepen the reform of tax collection and administration, on 29th June 2021, the State Taxation Administration ("STA") and the State Administration of Foreign Exchange ("SAFE") jointly issued Announcement [2021] No. 19. -- "Supplementary Announcement of the Administration Concerning Filing of Foreign Payment and Taxation for Trade in Services and Other Items", which aims to simplify the existing administration procedures.

The following changes are worth noting:

1. If the same contract requires several payments, the contract only need to be filed for record for the first payment.

2. Foreign investor will be exempted from filing in the following cases: re-investment of legitimate investment income in China and non-operational foreign exchange payments within financial budget.

3. Enhance usage of online filings

Clarification of Certain Details on Collection and Administration of Corporate Income Tax

On 22nd June 2021, the State Taxation Administration ("STA") issued Announcement [2021] No. 17, which will be applicable to annual Corporate Income Tax ("CIT") reconciliation for 2021 and beyond. The Announcement clarifies the following issues with regard to the collection and administration of CIT:

1. Charitable donations. CIT Law stipulates the donation for public welfare can deducted for tax purpose, but the deductibility of pertinent freight, insurance premium and labour services (with respect to shipment of physical assets donated) was ambiguous. The above announcement makes it clear that such expenses can be included as donations so long as they are included in the donation receipts. Otherwise, they have to be treated as period expenses.

2. Conversion of convertible bonds to equity investments. For the purchasing enterprise, no matter whether it exercises or not, the receivable and uncollected interest during the bond holding period should be declared and paid CIT. For the issuer enterprise, its unpaid interest is allowed to be deducted before tax.

3. Cross-border mixed investment. The investment enterprise shall include the interest income into the current taxable income amount, and the interest expense of the invested enterprise shall be deducted before tax; In case the invested enterprise redeems its investment, both parties shall record the difference between the redemption price and the investment cost into profits and

losses and separately record it into the taxable income of the current period. However, if the investor and the investee are related enterprises, and the country where the investor is located considers the income as equity investment income and does not collect corporate income tax, the interest expense of the investee enterprise is regarded as dividend and cannot be deducted before tax.

4. Tax treatment of assets collected for verified expropriation enterprises change to audit collection enterprises. After the verified expropriation enterprise changes to the audit collection enterprise, the amount of assets shall be calculated on the basis of the invoice amount or the contract amount or the amount of the payment certificate, and the depreciation shall be calculated and withdrawn on the basis of the remaining years according to the provisions of the tax laws.

5. Cultural relics and artworks for the purposes of collection, exhibition or appreciation should be treated as investment assets, the depreciation or amortization of which is not allowed to deduct before tax.

6. Government fiscal funding. Fiscal funds received by enterprises that provide services or sell products according to the market prices and get the fund based on the sales volume or amount shall be recognized as income on an accrual basis. Other funds including fiscal subsidies, allowances, compensations or tax refunds should be treated on a cash basis.

Service Highlight

China has been recovering steadily since the outbreak of Covid-19 in December 2019. Now the main focus is on helping and supporting companies and individuals to get back on track. The Chinese government continues to push out preferential tax policies, including value-added tax, enterprise income tax, vehicle purchase tax to reduce the tax burden of corporates and individuals.

We are committed to providing our clients comprehensive advice on how to take advantage of different opportunities in China for the success of their operation in this dynamic economic environment. For assistance or support, please contact our marketing executive, Ms. Miumiu Chan via email miumiuchan@sinobridge-consulting.com or telephone (852) 3579 8745.

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