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The Promulgation of Resource Tax Law

<The Resource Tax Law of the People's Republic of China> (hereinafter referred to as the ‘Resource Tax Law’) was adopted at the 12th Session of the Standing Committee of the 13th National People's Congress on 26th August 2019, and become effective from 1st September 2020. The new law replaces <the Provisional Regulations of the People's Republic of China on Resource Tax>. On 24th June 2020 and 28th June 2020, Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) jointly issued two announcements, <Notice about the Continuity of Resource Tax Preferential Policies> ([2020] No. 32) and <Statement on Enforcement Standards of Resource Tax Related Issues> ([2020] No. 34) respectively, to clarify the procedures and requirements relating to the implementation of the Resource Tax Law. On 28th August 2020, SAT issued <Announcement of Certain Issues regarding Resource Tax Levy> (Guoshui [2020] No. 14) to clarify specific and detailed matters such as calculation methods and new format of filing forms.

The taxable items of resource tax include five categories: energy minerals, metallic minerals, non-metallic minerals, water-gas minerals and salt. Tax rates range from 1% to 20% or it could be taxed on a volume basis.

Comparing to the previous provisional regulation, the Resource Tax Law has the following critical changes:

1. The scope of taxation has been broadened. The expression of "mining mineral products and producing salt" is replaced by "developing taxable resources".
2. There are more detailed tax items. The original 30 kinds of scattered main tax items were unified into 164 taxable items, which were listed one by one in the tax items list.
3. Scope of tax reduction or exemption has been defined. The preferential policies of resource tax can be divided into two categories - exemption and reduction:

<table>
<tr><th>Resource Tax Exemption</th><th colspan="2">Resource Tax Reduction</th></tr>
<tr><td rowspan="3">1. Exploitation of crude oil, and crude oil and natural gas for heating purpose in the course of transportation within the field

2. Coal-derived (layer) gas extracted by coal mining enterprises for safety in production</td><td>20% reduction</td><td>Crude oil and natural gas extracted from low abundance oil and gas fields</td></tr>
<tr><td>30% reduction</td><td>High sulphur natural gas;

Tertiary oil recovery;

Crude oil and natural gas extracted from deep-water oil and gas fields;

Minerals extracted from depleting mines</td></tr>
<tr><td>40% reduction</td><td>Heavy oil and high condensation oil</td></tr>
</table>

To ensure consistency of preferential policies, the State Council has authorized the MOF and the SAT to continue to implement four preferential policies that were in place prior to the implementation of the Resource Tax Law (i.e. Announcement [2020] No. 32). Local governments may also, according to their own circumstances, grant preferential treatment to taxpayers for tax reduction or exemption.

4. The resource tax is generally levied ad valorem. That is, except geothermal, mineral water, limestone, sandstone, other clay and natural brine, 6 items in total that could be taxed either ad valorem or on a volume basis, the other 158 tax items are subject to the ad valorem method.
5. The tax rates for raw ore and mineral separation are set respectively. The taxation objects of mineral products can be divided into raw ore and mineral separation to ensure the fairness of tax burden and simplify tax declaration.
6. If a contract of Chinese-foreign cooperative oil exploitation has been signed before 1st November 2011 and is still valid, mining royalty will continue to be levied and the resource tax would not be paid until the expiration of the contract.

Updated Measures for Levy of Employment Security Fund for the Disabled in Shanghai

On 18th August 2020, Shanghai Finance Bureau, Shanghai Administration of Taxation, Shanghai Bureau of Human Resources and Social Security and Shanghai Disabled Individuals' Federation jointly issued a Notice <Shanghai Municipal Administrative Measures on the Collection and Use of Employment Security Funds for the Disabled Individuals> (Caihufa [2020] No.9). Disabled employment security fund ("the Fund") will be levied for enterprises with employment rate for disabled individuals less than 1.5%. The key message has been summarized as follow:

1. From 1st September 2020, the administrative authority will be changed from Shanghai Social Security Bureau to Tax Bureau;
2. Temporary exemption of the Fund is granted to enterprises, whose number of employees does not exceed 30, for three years from 2020;
3. Where the number of employees exceeds 30 and the proportion of disabled employees is below 1% or between 1% and 1.5%, different formulas to calculate the Fund to be levied are stipulated;
4. In case of force majeure or other incidents, which cause major direct economic losses, enterprises are entitled to apply for reduction or postponement of the Fund which are capped at one year's payment and a six-month period;
5. The Fund could be filed and paid either online or over the counter;
6. The regulation shall be effective from 1st September 2020 to 31st August 2023.

Corporate Income Tax Preferential Policies in Hainan Free Trade Port

On 23th June 2020, MOF and SAT jointly announced the <Notice of Preferential Policies on Corporate Income Tax in Hainan Free Trade Port> (Caishui [2020] No. 31). Some important points could be referred to as follows:

1. For enterprises registered in and having substantial operation in the Hainan Free Trade Port, a corporate income tax (“CIT”) rate of 15% could be applied provided those enterprises fall into the “Encouraged Category” in the investment industry catalog, which means at least 60% of their revenue should be derived from businesses in the “Encouraged Category”.

The “Encouraged Category” refers to those stipulated in the <Catalog of Industrial Restructuring Guidance (2019 Edition)>, the <Catalog of Encouraged Industries for Foreign Investments (2019 edition)>, the catalog published by the Hainan Free Trade Port as well as subsequent amendments of these catalogs.

CIT exemption is granted to income derived from new overseas direct investment on tourism, modern service industries and high- and new-tech enterprises.

2. Newly purchased fixed assets (except houses and buildings) and intangible assets including those self-built or developed by the enterprise with a unit value less than RMB5 million is allowed as one-off expenses for CIT deduction. If the unit value is more than RMB5 million, a longer depreciation or shorter amortization period could be adopted.

This notice shall be effective from 1st January 2020 to 31st December 2024.

Service Highlight

The Chinese government has invested great strength in cutting bureaucracy and administrative burdens in recent years, which has brought benefits to taxpayers, especially medium, small and micro-scaled enterprises.

As a professional consulting firm, Sino-bridge, with the principle of customer first and quality oriented, is always pleased to provides you the most fresh and insightful information. For any questions or needs, you are more than welcome to dial the number (852) 3579 8745 or contact our marketing executive Miumiu Chan by email miumiuchan@sinobridge-consulting.com.

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