

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?
Announcement [2019] No. 68, jointly released by the State Administration of Taxation ("SAT") and the Ministry of Finance ("MoF")	2019-05-17	2019-05-17	Corporate Income Tax ("CIT") policy applicable to Integrated Circuit ("IC") design and software industries	The Announcement has extended the preferential CIT treatment in the circular Caishui [2012] No. 27 ("Circular 27") for one more year to support the development of IC design and software industries. According to the Announcement, a qualified IC design company or software company can enjoy the tax holiday of "2-year exemption and 3-year half-reduction" from its first profitable year having occurred by 31 December 2018, as opposed to 31 December 2017 prescribed in Circular 27.
Announcement [2019] No. 71, jointly released by the SAT and the MoF	2019-05-23	2019-07-01	Detailed polices of Vehicle Purchase Tax ("VPT")	The Announcement has clarified detailed VPT policies for implementation purposes. Key contents of the Announcement are as follows: <ol style="list-style-type: none"> 1. Urban rail traffic vehicles, special purpose mechanical vehicles, cranes, forklifts and electronic motorcycles are not subject to VPT. 2. Total price paid by taxpayers for purchasing taxable vehicles for self-use purpose shall be determined based on the VAT-exclusive price shown on relevant certificates. 3. Taxpayers' importation of taxable vehicles for self-use purpose refers to direct importation or importation via agents and excludes domestic purchase of vehicles which were originally imported from abroad. 4. For taxpayers manufacturing taxable vehicles for self-use purpose, the tax base shall be determined based on the VAT-exclusive market price of the vehicles of the same type. If the

				<p>market price is not available, the tax base shall be determined based on the following formula:</p> $\text{Tax base} = \text{cost} * (1 + \text{mark-up rate})$ <p>The tax base includes Consumption Tax, if applicable.</p> <p>5. If the vehicles having enjoyed VPT exemption or reduction no longer qualify for the exemption or reduction, the following policies shall apply:</p> <ul style="list-style-type: none"> • If the taxable vehicle is transferred, the transferee shall be the taxpayer. The owner of the vehicle shall be VPT taxpayer in other cases; • VPT obligation arises on the date on which the vehicle is transferred or the date on which the use purpose of the vehicle is changed; • The VPT payable shall be determined based on the following formula: $\text{VPT payable} = \text{tax base determined at the first-time declaration} * (1 - \text{years of usage} * 10\%) - \text{VPT already paid}$ <p>“Years of usage” refers to total number of years from the first-time declaration to the date on which the vehicle no longer qualifies for VPT exemption or reduction. Years of usage shall be an integer number. Any period less than 12 months shall be excluded.</p> <p>6. For sales return of the taxed vehicles, taxpayers can apply for VPT refund which shall be determined based on the following formula:</p> $\text{VPT refundable amount} = \text{VPT paid} * (1 - \text{years of usage} * 10\%)$ <p>“Years of usage” refers to total number of years from the time when VPT was paid to the date of VPT refund application.</p>
Announcement [2019] No. 72, jointly released by the SAT and the MoF	2019-05-28	2019-01-01	Pre-CIT deduction policy of commission expenses applicable to insurance companies	<p>According to the Announcement, an insurance company can deduct business-related commission expenses from the taxable income within the annual upper limit of 18% of its total net insurance revenues of the current year. Any excessive commission expense can be carried forward to the future years for deduction.</p> <p>This Announcement is applicable to the insurance companies' annual CIT filings for 2018.</p>

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