China Tax Alert

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Self-assessment system for claiming China tax incentives

Regulations discussed in this issue:

- Announcement on Revised Measures for Claiming Corporate Income Tax Benefits (Announcement [2018] No. 23, “Announcement 23”), issued by SAT on 25 April 2018.
- Announcement on Measures on Claiming Corporate Income Tax Benefits (Announcement [2015] No. 76, “Announcement 76”), issued by SAT on 12 November 2015.

In recent years the Chinese government has progressively replaced administrative pre-approvals, for various tax treatments and regulatory licenses, with recordal requirements. This has been coupled with more targeted and effective procedures for follow up audit and review.

In the Corporate Income Tax (CIT) space, State Administration of Taxation (SAT) Announcement 76, issued in 2015, provided that all CIT preferential treatment pre-approvals would be fully replaced by a recordal requirements. Taking the next step, SAT Announcement 23, issued on 25 April 2018, now abolishes the recordal requirement. Instead, new, simplified, self-assessment procedures will apply, starting from the CIT annual filing for the 2017 tax year.

Self-assessment

Building on Announcement 76, Announcement 23 makes several changes:

- **Simplified procedures for claiming CIT benefits:** Taxpayers are now required to assess for themselves whether they qualify for the CIT preferential treatment, and declare the CIT incentives they adopted in their CIT annual filing. They are no longer required to send documentation, up front, to the tax authorities for consideration. Instead, taxpayers are required to keep supporting documentation on file, in case of future audit.
- **Supporting documents classified as “principal” or “other” documents:** Taxpayers are required to collect and maintain on file the tax relief supporting documents, listed as “principal documents” in the 2017 version list. Documents listed as “other documents”, by contrast, do not need to be maintained on file, but may need to be resourced by the taxpayer, if and when the authorities request them in clarification of uncertain matters.

- **Follow-up administration.** Under Announcement 23, taxpayers in the software and integrated circuit (IC) sectors, who have claimed CIT benefits, must submit their principal supporting documents to the authorities before the deadline of CIT annual filing (i.e. 31st May). For other taxpayers, the follow-up tax administration requirements will be set out by their provincial tax authorities. Tax authorities will strengthen their follow-up administration.
- **Updated list (i.e. “2017 version”) of CIT preferential items:** There is a broad range of CIT preferential items including tax exemptions, tax basis deductions, super deductions, accelerated depreciation, tax credits, tax rate reductions, etc. The 2017 version of this list, replacing that from 2015, introduces greater consistency between the listing and the various CIT filing forms.

KPMG observations:

Announcement 23 is a welcome development for taxpayers, as the self-assessment system should lower the compliance burden for accessing various incentives, such as the 15% CIT rate for High and New Technology Enterprises. The new rules are in line with the SAT's broader program to simplify tax administration, set out in 2017 in SAT Circular No. 101.

At the same time, the new approach, by shifting responsibility to taxpayers to ensure they fully meet the incentive criteria, increase their risk of penalties if an adopted incentive is later determined inappropriate on audit. As such, taxpayers may consider making enhancements to their internal risk control systems for better oversight over incentive treatment evaluation and documentation processes, as well as seeking professional advice, as necessary.

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