

China Tax Weekly Update

ISSUE 24 | June 2018

Reference: N/A

Issuance date: N/A

Effective date: N/A

Relevant industries: All

Relevant companies: All

Relevant taxes: All

Potential impacts on businesses:

- Attention on the reform impacts on fiscal and tax-related matters is required

You may click [here](#) to access full content of the circular.

Reference: SAT Announcement [2018] No. 28

Issuance date: 6 June 2018

Effective date: 1 July 2018

Relevant industries: All

Relevant companies: All

Relevant taxes: CIT

Potential impacts on businesses:

- Certainty increased

You may click [here](#) to access full content of the circular.

Merger of state and local tax bureaus progresses

Currently, the State Council is in the process of merging many government authorities and agencies. This includes merging local tax bureaus (LTBs) and state tax bureaus (STBs), which have up to now separately administered tax revenues flowing to local governments and to the central government.

On 15 June 2018, all provincial local tax bureaus (LTBs) were officially merged into the State Tax Bureaus (STBs). This signals a crucial step in the tax administration reform. According to the reform plan, the merger of LTBs and STBs below provincial level was to be completed before the end of July 2018.

Prior to that, the State Administration of Taxation (SAT) has issued [Shui Zong Fa \[2018\] No. 68](#) and [SAT Announcement \[2018\] No. 32](#), clarifying certain matters in the transition period, such as:

- The duties of pre-merger STBs and LTBs are carried over to the newly-merged tax bureaus;
- VAT invoices that have been printed by pre-merger provincial STBs and LTBs can be used until 31 December 2018.

Supporting documents for CIT deduction clarified

On 6 June 2018, SAT issued [Announcement \[2018\] No. 28](#) ("Announcement 28"), setting out the supporting document requirements for corporate income tax (CIT) deduction purposes. Previously, China had no specific rules to regulate which supporting documents in-charge tax authorities could demand. While there are certain relevant stipulations in the Tax Collection and Administration Law, the Administrative Measures for Invoices, and their implementation rules, many disputes over what constituted adequate documentation arose between tax authorities and taxpayers in practice. As such, the new guidance aims to increase certainty for enterprises.

Announcement 28 applies from 1 July 2018, clarifying the following:

Applicable scope	<ul style="list-style-type: none"> Announcement 28 applies to resident and non-resident enterprises as defined under the CIT law and its implementation rules.
Supporting documents	<ul style="list-style-type: none"> Supporting documents are classified, based on their source, as "internal" or "external" documents: <ul style="list-style-type: none"> Internal documents include accounting vouchers that are used for recording enterprise costs, expenses, losses and other expenditures, such as payroll sheets. External documents include payment vouchers obtained from other enterprises or individuals such as invoices (including e-invoices), receipts from government authorities, tax payment receipts, receipt evidences and allocation forms for expenses. It should be noted that the external documents, as defined here, are the most crucial for claiming CIT deductions under the new guidance. Announcement 28 clarifies that enterprises are usually required to obtain eligible supporting documents when payments occur, except in the following circumstances: <ul style="list-style-type: none"> In some cases that taxpayers need to ask other enterprises / individuals to retrospectively issue or re-issue the eligible supporting documents, then the time limit to obtain the eligible supporting document can be extended to before the end of annual CIT filing deadline (i.e., 31st May). This means that taxpayers can claim CIT deductions in their tax returns if the eligible supporting document are made available before 31st May. Announcement 28 clarifies that taxpayers are required to ensure the authenticity, legality and relevance of supporting documents. It also clarifies that certain documents, such as contracts/agreements, written judgments for paying liquidated damages, do not fall under the scope of supporting documents for CIT deduction purposes. However, these documents are closely related to enterprises' business activities and can be used to prove the authenticity of the supporting documents in case of future audit.
Tax relevance of external documents	<ul style="list-style-type: none"> Announcement 28 clarifies that enterprise expenditures are allowed to be deducted for CIT purposes if eligible invoices or other external supporting documents are obtained within the prescribed timeframe. For eligible invoices or other external supporting documents that should be obtained but have not yet been obtained, Announcement 28 sets out the following guidance: <ul style="list-style-type: none"> Before annual CIT filing deadline: where the eligible supporting documents can be obtained before the deadline, relevant expenditures are allowed to be deducted. Otherwise, no deduction is allowed in the absence of any supporting documents.

Tax relevance of external documents (cont'd)

➤ After annual CIT filing deadline:

- For enterprises that did not claim any deductions in the absence of any supporting documents, such expenditures can be deducted retroactively upon receipt of the eligible invoices or external documents in the subsequent years. The deduction must be made in the year in which the expenditure occurred, but the retroactive deduction may not be claimed once five years have passed (e.g. for an expenditure which incurred in 2018, the supporting documents must be obtained by 2023 at the latest).
- For enterprises that have claimed the CIT deduction in the absence of any supporting documents, and this is detected by the tax authorities, the tax authorities shall request the enterprises to obtain the eligible invoices or supporting documents within 60 days. If an enterprise obtains the eligible invoices or supporting documents within the prescribed timeframe, the expenditures are allowed to be deducted in the year in which such expenditures occurred. Otherwise, deductions for such expenditures incurred in that year will be disallowed and the taxpayer would not be able to make any deduction claims retrospectively.

It should be noted that, if a tax deduction is claimed for a tax period without having the necessary supporting documents, the tax authorities will determine, on audit, that tax was underpaid. Late payment surcharge could be imposed on the underpaid tax. This would be the case even where taxpayers can obtain the eligible supporting documents within 60 days from being notified by the authorities.

Reference: SAT Announcement [2018] No. 30
Issuance date: 11 June 2018
Effective date: 1 July 2018

Relevant industries: All
Relevant companies: All
Relevant taxes: IIT

Potential impacts on businesses:
• Actual tax burden reduced

You may click [here](#) to access full content of the circular.

Implementation rules for IIT incentives for scientific and technical staff

In May 2018, the Ministry of Finance (MOF), SAT and Ministry of Science and Technology (MOST) jointly issued [Cai Shui \[2018\] No. 58](#) ("Circular 58"), setting out preferential individual income tax (IIT) treatment for scientific and technical staff. Effective from 1 July 2018, only 50% of cash rewards received by the staff are taxed as wages and salaries and the remaining 50% of the cash rewards are exempted from IIT (see KPMG [China Tax Weekly Update \(Issue 22, June 2018\)](#) for details).

To complement this, on 11 June 2018, the SAT issued [SAT Announcement \[2018\] No. 30](#) ("Announcement 30") to clarify the implementation of the preferential IIT treatment.

Announcement 30 also applies from 1 July, providing the following clarifications:

- According to Circular 58, cash rewards refer to cash paid to staff, within 36 months of non-profit research institutions or universities obtaining income generated from the monetization of scientific and technical breakthroughs. The “within 36 months” kicks in on the day in which the non-profit research institutions or universities receive the income generated from the monetization of the scientific and technical breakthroughs.
- According to Circular 58, a recordal filing with tax authorities is required when cash rewards are paid to scientific and technical staff. Announcement 30 further clarifies that a recordal filing form must be submitted to the tax authority before the 15th day of the following month when the cash rewards are actually paid. In case of future audit, taxpayers should maintain other evidential documents such as local MOST-registered technology contracts.

Reference: SAT
Announcement [2018] No.
29

Issuance date: 11 June
2018

Effective date: 1 August or
1 October 2018

Relevant industries: All
Relevant companies: All
Relevant taxes: VAT

Potential impacts on
businesses:

- Operational costs reduced

You may click [here](#) to
access full content of the
circular.

New rules on requesting VAT invoices by new taxpayers

On 11 June 2018, the SAT issued [Announcement \[2018\] No. 29](#) (“Announcement 29”) which sets out new rules for the initial confirmation by a new taxpayer, with its in-charge tax authority, of the arrangements under which it will issue VAT invoices. These include (i) determining the types of invoices that the taxpayer will issue; (ii) approving the maximum limits for issuing special VAT invoices; (iii) initializing the special equipment for the VAT control system; (iv) request for invoices, etc.

Announcement 29 shall apply from 1 August 2018 nationwide, except for Xinjiang, Qinghai and Tibet, for which it will apply from 1 October 2018. Specifically, Announcement 29 clarifies the following:

- For new taxpayers who are confirming the matters listed above, with their in-charge tax authorities, the authorities are required to accept and approve the application within 2 working days (currently in some region this requires 20 working days), if the new taxpayers meet all the following conditions:
 - Identity documents of tax handlers or legal representative of the taxpayers have been identified by tax authorities;
 - The taxpayers who apply for VAT invoices for business demands; and
 - The taxpayers have obtained tax control systems.

For certain tax authorities with capabilities, Announcement 29 also requires them to accept and approve the application on the same day upon receipt of the application.

- In relation to the maximum invoicing amount and invoice quotas, Announcement 29 clarifies that:
 - For special VAT invoices: The maximum invoicing amount will be RMB100,000 and the quotas for requesting for each month must not exceed 25 copies.
 - For ordinary VAT invoices: The maximum invoicing amount will be RMB100,000 and the quotas for requesting for each month must not exceed 50 copies.

Other recent regulatory and tax circulars:

- [The State Council approves to deepen the pilot program of service trade innovation development zones \(Guo Han \[2018\] No. 79, issued on 8 June 2018\)](#)
- [China-Sweden DTA comes into effect \(SAT Announcement \[2018\] No. 27, issued on 5 June 2018\)](#)

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