

Shenzhen Qianhai extends the preferential tax policy of 15% CIT rate to 2025 to further boost the vigorous development of modern service enterprises

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In brief

Back in 2014, the Ministry of Finance (“MOF”) and the State Taxation Administration (“STA”) issued the *Notice Regarding CIT Preferential Treatment and Preferential Catalogue for Guangdong Hengqin New Area, Fujian Pingtan Comprehensive Experimental Zone, and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone*¹ (Caishui [2014] No. 26, hereinafter referred to as “Circular 26”), providing enterprises established in Hengqin New Area (Hengqin), Pingtan Comprehensive Experimental Zone (Pingtan) and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (Qianhai) engaging in the encouraged industries with a 15% preferential CIT rate. The *Catalogue of Encouraged Industries Eligible for CIT Preferential Treatment* (“2014 Catalogue”) for each area were released accordingly. However, such preferential treatment expired on 31 December 2020.

On 27 May 2021, the MOF and the STA jointly issued the *Notice on Extending the Preferential CIT Treatment for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone*² (Caishui [2021] No. 30, hereinafter referred to as “Circular 30”), renewing and updating the preferential CIT policy of 15% CIT rate in Qianhai, and released the *Catalogue of Qianhai Encouraged Industries Eligible for CIT Preferential Treatment (2021 version)* (“Qianhai 2021 Catalogue”). Circular 30 and Qianhai 2021 Catalogue are effective from 1 January 2021 to 31 December 2025.

In order to implement the preferential CIT policy of Circular 30, Shenzhen Tax Bureau subsequently issued the *Notice on the Guidelines of Preferential CIT Policies for Enterprises in Qianhai* (hereinafter referred to as “the Guidelines”)³, specifying the detailed procedures and filing methods for enterprises to enjoy the preferential policy.

In this issue of *China Tax/Business News Flash*, we summarise the key contents of Circular 30 and the Guidelines, as well as share our observations.

In detail

Policy details

In accordance with Circular 30 and the Guidelines, a Qianhai enterprise is entitled to 15% CIT rate where its

main business falls within one or more industries in the Qianhai 2021 Catalogue and more than 60% of its total revenue is derived from its main business. Compared to Circular 26 which required over 70% of revenue from the enterprise's main business, Circular 30 reduces the revenue percentage, lowering the threshold for enterprises to benefit from the preferential policy.

Circular 30 also specifies the eligibility of headquarters and branches. For an eligible enterprise whose headquarters is in Qianhai, the reduced CIT rate of 15% applies only to the income of its headquarters and branches located in Qianhai; and for an enterprise whose headquarters is outside Qianhai, the reduced CIT rate of 15% applies only to the income of the eligible branch in Qianhai.

Qianhai 2021 Catalogue

The newly released Qianhai 2021 Catalogue contains 30 items under 5 industries, which expands the scope in the Qianhai 2014 Catalogue (which had 21 items under 4 industries), including modern logistic industry, information service industry, science and technology service industry, cultural creative industry, and newly added business service industry (including 8 items). Besides, the Qianhai 2021 Catalogue expands the range of information service industry by including blockchain, virtual reality (VR), augmented reality (AR), artificial intelligence, industrial Internet, Internet of vehicles, intelligent wear and other emerging types of information technology R&D and services industries.

Filing methods

The Guidelines provides that Qianhai enterprises enjoying the 15% CIT rate should perform "self-assessment, claiming tax benefit, retaining documents for inspection". The 15% CIT rate is applicable for quarterly CIT provisional filing. The documents to be retained for inspection include service contracts related to the income from its main business, etc.

The takeaway

The reduced CIT rate of 15% is one of the major national policies to support the development of Qianhai. The continuation of this preferential policy by Circular 30 will further promote the vigorous development of qualified modern service enterprises in Qianhai.

Based on past experience, the determination of whether an enterprise's main business falls within the Catalogue is a major challenge for the enterprise to enjoy 15% CIT rate, and therefore enterprises shall retain sufficient supporting documents and maintain active communication with the in-charge tax authorities. In order to promote the assessment of the industry category for enterprises to enjoy 15% CIT rate in Qianhai, the Qianhai Administration Bureau has issued circulars in the past years to require certain enterprises entitled to 15% CIT rate in Qianhai to carry out annual verification on whether their main business conform to the Catalogue, and the short-listed enterprises need to submit relevant documents within the prescribed time. In order to further reduce the compliance risk for taxpayers, the Guidelines also provides that enterprises with difficulty in determining whether their main business falls within the Catalogue can reach out to the Qianhai Tax Bureau which could provide "list-based" service to enhance the tax certainty.

Circular 30 extends the 15% CIT rate in Qianhai for another five years, it remains to be seen whether such preferential tax policies in Hengqin and Pingtan will also be further extended.

In addition, in the 14th Five-Year Plan for the Development of China (Guangdong) Pilot Free Trade Zone (Consultation Draft) released by the Guangdong provincial Department of Commerce, it is mentioned that it will strive for national support on the following aspects:

- adoption of 15% CIT rate for enterprises in encouraged industries in the Nansha district of Guangzhou;
- pilot reform of withholding income tax for aircraft leasing business in the Greater Bay Area ("GBA"), including the exemption of withholding income tax on finance leases for mainland companies in the GBA conducting aircraft leasing/sub-leasing business with Hong Kong companies, and the exemption of deed tax for finance lease companies carrying out real estate sales and leaseback business, and allowing CIT deduction of risk provisions;
- VAT refund-upon-collection preferential policy for special purpose vehicle (SPV) established by aviation finance lease companies, providing the parent company is entitled to such preferential treatment.

Above proposed policies, upon implemented, will inject new vitality into the development of the GBA. PwC will continue to pay attention to follow-up policies and share with you timely.

Appendix [omitted]

Endnote

1. *Notice Regarding CIT Preferential Treatment and Preferential Catalogue for Guangdong Hengqin New Area, Fujian Pingtan Comprehensive Experimental Zone, and Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone*¹ (Caishui [2014] No. 26)
http://qh.sz.gov.cn/sygnan/xxgk/xxgkml/zcfg/qhzc/content/post_4426214.html
2. *Notice on Extending Preferential CIT Treatment for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone* (Caishui [2021] No. 30)
http://qh.sz.gov.cn/lqgh/cxqh/cxdt/content/post_8900561.html
3. *Notice on the Guidelines of Preferential CIT Policies for Enterprises in Qianhai*
http://www.sz.gov.cn/cn/xxgk/zfxqj/tzqg/content/post_8939514.html

Let's talk

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