Navigating twists and turns, achieving goals with steady progress

2023 China tax policy review and 2024 outlook

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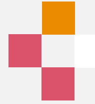
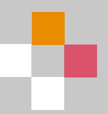




Foreword

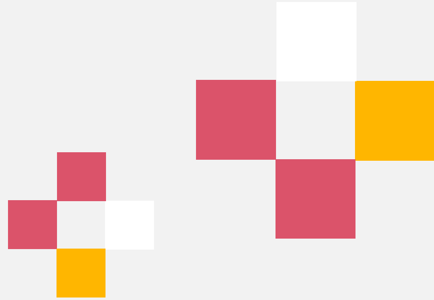
The *China Tax Policy Review and Outlook* is a series of annual publications designed by PwC's China National Tax Policy Services to review key tax policy developments in China and discuss the trends as well as implications on Chinese enterprises from a forward-looking perspective. This *2023 China Tax Policy Review and 2024 Outlook* is the 8th issue in the series.

2023 is a key year for global economy to gradually step out of downturn and strive for recovery. According to the *Economic Outlook* issued by the Organisation for Economic Cooperation and Development (OECD), the world economy achieved a growth by 2.9% in 2023, maintaining a moderate growth momentum. As an important engine for global economic growth, China witnessed its GDP of over RMB 126 trillion in 2023, an increase of 5.2%, demonstrating its tremendous economic resilience.

This hard-earned growth was attributed to China's persistent efforts in deepening economic restructuring and transformation, along with the implementation of proactive fiscal policies in an increasingly effective way. On the one hand, great progress has been made in high-end, intelligent and green development of manufacturing. Besides, the added value of service sector accounted for 54.6% of GDP, which promoted the overall economy growth. On the other hand, proactive fiscal policies have been more targeted and sustainable, with a focus on effectively ramping up support for the real economy, fostering technological innovation, expanding consumption and attracting foreign investment.

In 2023, China extended and formulated targeted tax and fee cuts policies. The expiring preferential tax and fee policies for small and micro enterprises and self-employed businesses were extended to the end of 2027. Meanwhile, to facilitate economic restructuring and technological innovation, the R&D super deduction policies saw "significant" upgrades. In March 2023, the State Council executive meeting decided to increase the R&D super deduction ratio for all qualified enterprises from 75% to 100%, which will be implemented as long-term institutional arrangement.

In terms of tax services, focusing on the entire life cycle of cross-border investment, the State Taxation Administration (STA) upgraded the cross-border tax services and launched the service brand of "TaxExpress" to better facilitate high-level opening-up. All provincial level tax authorities have launched the sub-brand of



"TaxExpress“. With the roll-out of locally featured service measures and promotion of “information express”, “policy express” and “service express”, it provides comprehensive tax support and high-quality services for enterprises going global and brought in.

Digital transformation is exerting far-reaching influence on tax administration. In 2023, piloting of fully digitised e-invoices has been rolled out nationwide. Administrative policies on electronic vouchers and electronic accounting documentation were also released, ushering in the era of digitised tax administration. With the progressing of Golden Tax Project Phase IV, the digitised tax administration system has been further improved, making tax administration more precise, accurate and efficient.

In the aspect of international taxation, the global minimum tax rules of Pillar Two under Base Erosion and Profit Shifting (BEPS) 2.0 was finally implemented. Countries including the United Kingdom, South Korea, Japan and Vietnam have enacted domestic Pillar Two legislation, which will take effect in 2024. This will bring new requirements on relevant regulatory disclosure and tax compliance. In addition, the first carbon tariff in the world (i.e. the Carbon Border Adjustment Mechanism, “CBAM”, of the European Union) was implemented in 2023. European Union (EU) importers must report the data of CO2 emissions in the production of certain imported products from 2023 to 2025, and will need to purchase certificates to cover the CO2 emission starting from 2026. This policy will elevate the costs of relevant imported products in Europe and pose challenges to Chinese enterprises exporting to the EU.

China’s tax policies provided strong support for economic recovery and development in 2023. As stated in the *Government Work Report* presented during the Two Sessions, in 2024, China will maintain its proactive fiscal policies, and make appropriate improvements to enhance the quality and efficiency. PwC believes that in 2024 and beyond, taxation will keep playing a key role in supporting the high-quality and sustainable economic growth in China.

Targeted policies: Supporting private economy development and alleviating the difficulties faced by small and micro enterprises

Since 2023, a series of policies supporting private economy development have been implemented, including the *Opinions of the CPC Central Committee and the State Council on Promoting the Development of the Private Economy*, the *Notice of Implementing Measures to Promote the Development of the Private Economy*, and the *Notice Regarding Strengthening Measures of Financial Support for the Development of the Private Economy*. Ranging from top-level design to system construction and specific measures, these policies strive to improve the business environment, boost the market confidence and unleash enterprises' vitality for the private sector.

In 2023, a number of tax measures were also introduced to foster private economy development. Small and micro enterprises and self-employed businesses are key components of the private sector, and these taxpayers are also the key target of the tax and fee cuts and tax service optimisation. In 2023, the Ministry of Finance (MOF) and STA extended and optimised multiple preferential tax policies for small and micro enterprises and self-employed businesses. The STA also issued the *Notice of Continuously Introducing and Optimising the Measures for the 'Spring Breeze Action to Facilitate Handling of Tax Matters' to Promote the Growth of the Private Economy and Serve High-Quality Development*, aiming at providing support for the development of micro, small and medium-sized enterprises and self-employed businesses, and ensuring the implementation of preferential tax policies. The tax and fee preferential policies and the optimisation of tax environment promoted the benign and healthy development of private economy.

Extending and optimising inclusive preferential tax policies

In December 2023, the MOF and STA jointly issued the *Guidelines on Preferential Tax and Fee Policies Supporting the Development of Micro and Small Enterprises and Self-employed Businesses (2.0)*, which summarised 50 preferential tax policies supporting the development of small and micro enterprises and self-employed businesses. The inclusive preferential tax policies extended and optimised in 2023 to support small and micro enterprises and self-employed businesses mainly include:

Preferential tax policies	Main contents
Public Notice Jointly Issued by the MOF and STA Regarding VAT Preferential Treatment for Small-scale VAT Taxpayers (MOF and STA Public Notice [2023] No. 1) *Public Notice Jointly Issued by the MOF and STA Regarding the VAT Reduction and Exemption Treatment for Small-scale VAT Taxpayers* (MOF and STA Public Notice [2023] No. 19)	Small-scale VAT taxpayers with monthly turnover of less than RMB 100,000 shall be exempt from VAT. Taxable sales revenue of small-scale taxpayers subject to a 3% VAT rate shall be subject to a preferential rate of 1%.
Public Notice Jointly Issued by the MOF and STA Regarding Preferential Tax Policies Further Supporting the Development of Small and Micro Enterprises and Self-employed Businesses (MOF and STA Public Notice [2023] No. 12)	For self-employed businesses, the individual income tax on the first RMB 2 million of annual taxable income shall be taxed at halved rate. Small-scale VAT taxpayers, small and thin-profit enterprises, and self-employed businesses are entitled to a 50% reduction on resource tax (excluding water resource tax), urban maintenance and construction tax, real estate tax, urban and township land-use tax, stamp duty (excluding stamp duty on securities transactions), arable land occupation tax, educational surcharge and local educational surcharge. For small and thin-profit enterprises, the annual taxable income shall be reduced by 75% and subject to CIT at the rate of 20%.

All the abovementioned policies have been extended through the end of 2027 at one shot, which reflects improved tax certainty and predictability, facilitates taxpayers to plan ahead, and enhances enterprises' confidence in long-term development.

In 2023, the private economy and small and micro enterprises benefited significantly from the tax and fee cuts. Newly implemented tax and fee cuts, tax rebates and deferred fee payments amounted to RMB 2,228.99 billion in 2023, of which, the incremental amount for private sector taxpayers totaled RMB 1,686.46 billion, accounting for 75.7%; and RMB 1,426.42 billion for micro, small and medium-sized enterprises, accounting for 64%.

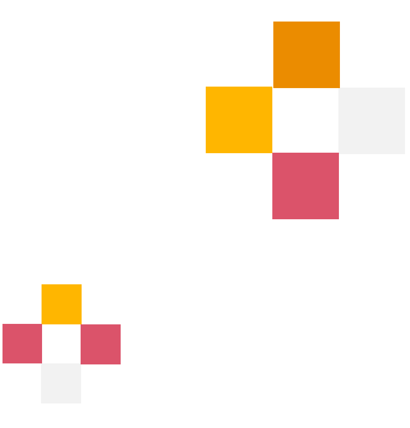
Tax measures facilitating private economy financing

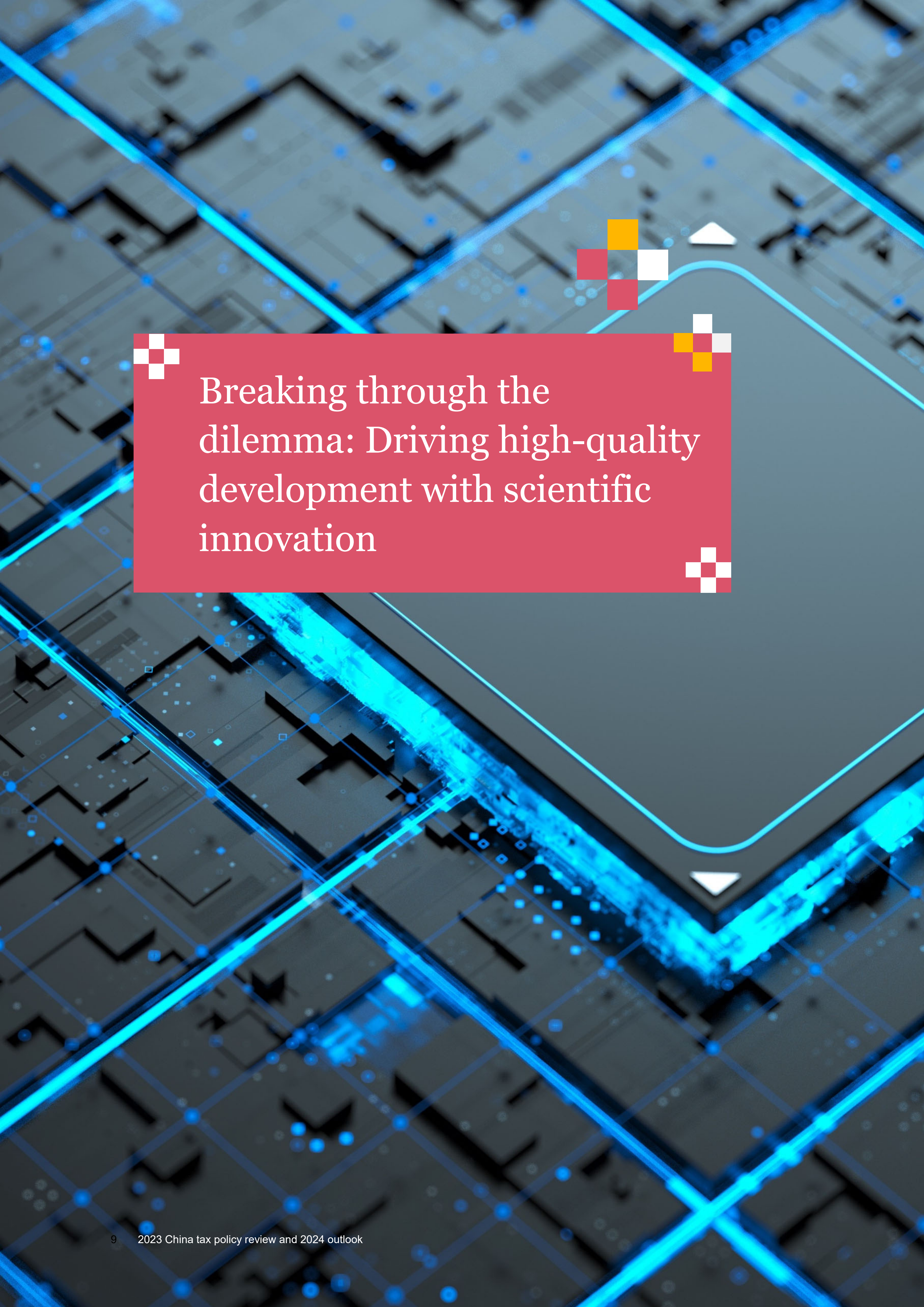
Difficulties in financing and high financing costs have long been major constraints for the development of private economy. In 2023, multiple preferential tax policies supporting financing of private economy were extended to 31 December 2027. Relevant preferential tax treatments include:

Tax policies	Main contents
Public Notice Jointly Issued by the MOF and STA Regarding Tax Policies to Support the Financing of Micro and Small Enterprises (MOF and STA Public Notice [2023] No. 13)	The interest income obtained by financial institutions from granting petty loans of RMB 1 million or below to small or micro enterprises and self-employed businesses shall be exempt from VAT. The loan contracts entered into between financial institutions and small or micro enterprises shall be exempt from stamp duty.
Public Notice Jointly Issued by the MOF and STA Regarding the VAT Exemption of the Interest Income Obtained by Financial Institutions from Granting Loans to Micro and Small Enterprises (MOF and STA Public Notice [2023] No. 16)	The interest income obtained by financial institutions from granting petty loans of RMB 10 million or below to small or micro enterprises, and self-employed businesses shall be exempt from VAT.
Public Notice Jointly Issued by the MOF and STA Regarding the Extension of VAT Policies on Financing Guarantee for Farmer Households, Micro and Small Enterprises and Self-employed Businesses (MOF and STA Public Notice [2023] No. 18)	The financing guarantee and re-guarantee services provided for farmer households, micro and small enterprises and self-employed businesses shall be exempt from VAT.
Public Notice Jointly Issued by the MOF and STA Regarding the Extension of Tax Policies on the Repayment-in-kind of Non-performing Creditor's Rights of Banking Financial Institutions and Financial Asset Management Companies (MOF and STA Public Notice [2023] No. 35)	Banking financial institutions and financial asset management companies, who are general VAT taxpayers, can deduct the real estate's value as repayment from the total of sales price and non-price charges, and apply a VAT rate of 9% when disposing the repayment real estate. The contracts, property transfer documents and business account books involved in receiving and disposing of the repayment assets by banking financial institutions and financial asset management companies shall be exempt from stamp duty. The receipt of the repayment assets by those taxpayers shall be exempt from deed tax.

Apart from implementing tax and fee cut measures, to improve the financing convenience for private economy, the STA included the “optimisation of credit information sharing between banks and tax authorities” in the “Spring Breeze Action to Facilitate Handling of Tax Matters" of 2023, guiding local authorities to further promote "tax-bank interactions". Through policy guidance, the government encourages tax authorities to strengthen cooperation with financial institutions. Financial institutions can take enterprises' tax credit as a reference for financing credit, which facilitates the assessment of enterprises’ credit, thereby streamlining the loan-granting process and improving the financing efficiency. During 2023, local tax authorities consistently facilitated the quality improvement and upgrading of "tax-bank interactions" through innovations. The STA data indicates that in 2023, small and micro enterprises nationwide obtained bank loans of RMB 2.84 trillion through "tax-bank interactions", a year-on-year increase of 26%.

As an indispensable force for current economic recovery of China, the high-quality development of private economy and small and micro enterprises has positive impacts on increasing investment, creating jobs and stimulating innovation. The private economy and small and micro enterprises are also expected to be the focus of tax support in the long run. The tax and fee cut policies in recent years indicate that the tax support at the present stage leans more towards policy continuity and stability, and focuses on targeted and effective implementation of preferential tax policies. Under the policy direction of enhancing quality and efficiency, instead of scale expansion, future tax and fee cuts expect to be more efficiency and effectiveness orientated, and become more targeted and precise.





Breaking through the dilemma: Driving high-quality development with scientific innovation

The 14th Five-Year Plan stresses the importance of the innovation-driven growth. It proposes that innovation should remain the core of China's modernization construction process, with self-reliant and self-strengthening scientific and technological capability to provide strategic support for China's development. Tax policies are playing an important role in facilitating sci-tech innovation and providing consistent support for enterprises in this regard. With continuous optimisation and strengthened support, tax policies have covered the whole life cycle of enterprises' sci-tech innovation. The more enterprises invest in R&D activities, the more tax benefits they may enjoy under the incentives. According to the statistics, from 2018 to 2022, the reduction and exemption amount provided by preferential tax and fee policies supporting sci-tech innovation increased by 28.8% annually on average. In 2022, the total tax reduction amounted to RMB 1.3 trillion, which effectively stimulated the impetus for innovative development. The R&D investment of enterprises also achieved an annual increase of 25.1% on average during the period from 2018 to 2022.

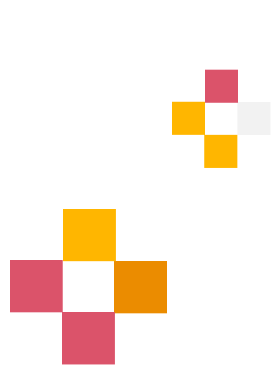
Steady enhancement of R&D expenditures super deduction policy

The super deduction of R&D expenditures is a tax-base preferential treatment for Corporate Income Tax (CIT) purpose. It encourages enterprises to increase R&D investment while alleviating their tax burdens. This, in turn, will facilitate the implementation of the national strategy of innovation-driven growth, as well as the building of an innovative state. Within a period of 6-month, three favourable policies were released. Through an increasingly robust tax incentive mechanism, enterprises are encouraged to innovate and accumulate development momentum.

On 24 March 2023, decision was made at the State Council executive meeting that the super deduction ratio of R&D expenditures for eligible enterprises would be raised from 75% to 100%, and it would be a long term institutional arrangement. This policy are widely welcomed by enterprises. The release of the *Public Notice Jointly Issued by the MOF and STA Regarding Further Refining the Super Deduction of R&D Expenditures for CIT Purpose* (MOF and STA Public Notice [2023] No.7), on the one hand, meets the enterprises' expectations for the preferential treatment. On the other hand, it specifies the eligibility for enjoying the tax incentive, i.e. the treatment shall apply to resident enterprises, irrespective of their profit/loss status, which can calculate the R&D expenditures accurately with completed accounting systems, and are subject to tax on an actual basis according to the relevant laws and regulations, provided that they are not in the industries of negative list (such as tobacco manufacturing, lodging and catering, wholesale and retail business, real estate, leasing and business services, and entertainment).

The *Public Notice Jointly Issued by the STA and MOF Regarding Optimising the Filing Method Related to the Super Deduction of R&D Expenditures for CIT Purpose* (STA and MOF Public Notice [2023] No.11) further optimises the timing of enjoying the super deduction of R&D expenditures. Taking the actual business operation into consideration, the enterprises are entitled to enjoy the super deduction of R&D expenditures at their discretion at the time of quarterly CIT filing in July or October, or during the annual CIT filing. This provides enterprises with more alternatives and flexibility in determining the timing to apply the preferential tax treatment. According to the statistics, during the first three quarters of 2023, 403 thousand enterprises enjoyed the super deduction of R&D expenditures at the time of quarterly tax filings.

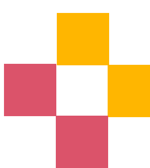
The *Public Notice Jointly Issued by the MOF, STA, NDRC and MIIT Regarding Further Increasing the Super Deduction Ratio of R&D Expenditures for CIT Purpose for Integrated Circuit Enterprises and Industrial Mother Machine Enterprises* (MOF, STA, NDRC and MIIC Public Notice [2023] No. 44) grants a higher super deduction ratio of 120% of R&D expenditures for the first time to integrated circuit and industrial mother machine enterprises. The preferential tax policy offers more stimulus in promoting the high-quality development of integrated circuit and industrial mother machine enterprises.



Upgrading the implementation guideline on super deduction of R&D expenditures

In July 2023, the Income Tax Department of the STA, and the Department of Policy, Regulation and Innovation System of the Ministry of Science and Technology jointly issued the *Guideline for Implementing the Policies on Super Deduction of R&D Expenditures (Version 2.0)* (the "Guideline 2.0"). Based on the Guideline 1.0, the Guideline 2.0 comprehensively summarises and interprets the R&D expenditures super deduction policies, including the main contents of the related policies, accounting requirements for R&D expenditures, filing and post-filing management, etc., aiming to demonstrate the key points of the related policies in a comprehensive, multi-dimensional, in-depth and more concise manner.

The Guideline 2.0 further defines the determining factors of R&D activities, and supplements with the assessment boundaries and description of R&D activities, as well as the process management of R&D projects. By illustrating with examples and lists, it assists the relevant enterprises in self-assessing R&D activities and effectively managing R&D projects.



Multiple tax incentives for Venture Capital Enterprises (VCEs)

To further implement the "mass entrepreneurship and innovation initiative", create a fair business environment, and promote the steady and healthy development of economy, multiple preferential tax policies for VCEs have been extended in 2023, which greatly contributed to enhancing enterprises' capabilities of technological innovation and confidence in achieving self-reliance.

The *Public Notice Jointly Issued by MOF, STA, NDRC and CSRC on Extending the Individual Income Tax (IIT) Policy for Individual Partners of VCEs* (MOF, STA, NDRC and CSRC Public Notice [2023] No. 24) extended the preferential income tax policies for individual partners of VCEs to the end of 2027. It provides the individual partners of the VCEs duly registered with the option to calculate the IIT payable based on individual investment fund or the total annual taxable income of the VCEs.

The *Public Notice jointly issued by the MOF and STA on the Policy Extension and Requirement for Enjoying the Policies for VCEs and Individual Angel Investors Making Investments in Technology Startups* (MOF and STA Public Notice [2023] No. 17) relaxed the criteria on the number of employees, total assets and annual sales revenue of qualified technology startups. This policy helps enterprises retain innovation talents and encourages scientific researchers to engage in R&D innovation and the application of technological achievements.

Following the pilot implementation of CIT policies for corporate VCEs in Zhongguancun National Innovation Demonstration Zone, the MOF, STA, NDRC and CSRC jointly released the *Notice regarding the Pilot CIT Policies for Corporate VCEs in Xiong'an New Area* (Caishui [2023] No. 40), initiating the trial implementation of preferential CIT policies for corporate VCEs in the Xiong'an New Area to further promote the construction of Xiong’an New Area and the development of the venture capital industry.

Empowering enterprises' innovation with extended CIT preferential policy for equipment and instruments acquisition

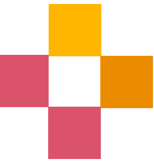
To better motivate entrepreneurship and innovations while expanding tax incentive coverage and lowering tax burdens, the MOF and STA issued the *Public Notice Regarding the CIT Deduction of Equipment and Instruments* (MOF and STA Public Notice [2023] No. 37). It allows lump-sum deduction of equipment and instruments (i.e. fixed assets other than buildings and structures) with unit price not exceeding RMB 5 million that are newly acquired between 1 January 2024 and 31 December 2027, which intends to further encourage enterprises to increase investment in equipment and instruments.

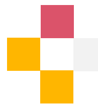
Backing up technological innovation with package of preferential Value-added Tax (VAT) policies

A package of preferential VAT policies to support the development of technological innovation have been introduced or extended, mainly including the introduction of input VAT super-credit for integrated circuit enterprises, industrial mother machine enterprises and enterprises in advanced manufacturing industry, the extension of preferential tax policies for high-tech incubation service, university science and technology park, and makerspaces, and the extension of full amount VAT refund policy for the purchase of domestic equipment etc. These preferential tax policies provide additional incentives for more enterprises to engage in innovative R&D and enhance the competitiveness.

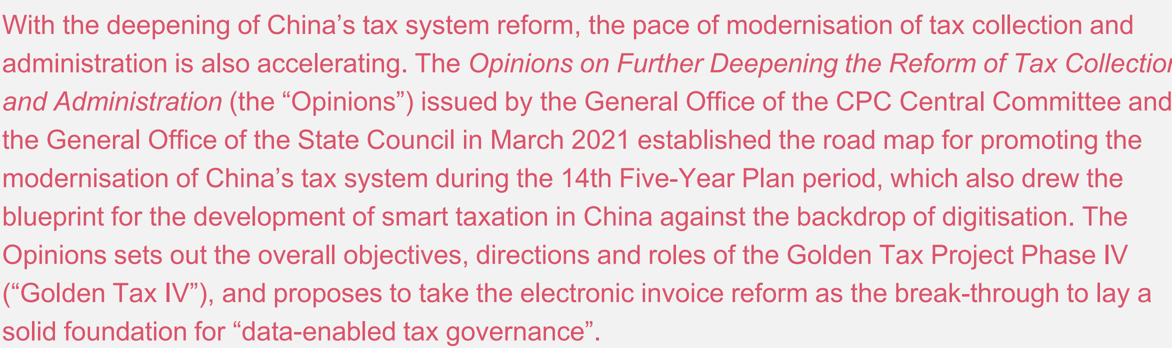
The introduction of policies regarding the refund of VAT credit balance and super-credit of the input VAT has substantially reduced the capital cost and stablised the cash flow for enterprises, facilitating enterprises to continue investing in technology and equipment upgrading and technological innovation. The *Notice Jointly issued by the MOF and STA Regarding Input VAT Super-Credit for Integrated Circuit Enterprises* (Caishui [2023] No. 17), the *Notice jointly issued by the MOF and STA Regarding Input VAT Super-Credit for Industrial Mother Machine Enterprises* (Caishui [2023] No. 25), and the *Public Notice Jointly issued by the MOF and STA Regarding Input VAT Super-Credit for Enterprises in Advanced Manufacturing Industry* (MOF and STA Public Notice [2023] No. 43) allow different types of enterprise taxpayers to claim an extra input VAT credit from 1 January 2023 to 31 December 2027.

To support and encourage scientific research and technological development by various institutions, the *Public Notice Jointly issued by the MOF, STA, MOST and MOE Regarding the Extension of Preferential Tax Policies on High-tech Incubation Service, University Science and Technology Park, and Makerspaces* (MOF, STA, MOST and MOE Public Notice [2023] No. 42) extended the VAT exemption on the income derived from incubation services provided by qualified state-level and provincial-level institutions. The *Public Notice Jointly issued by the MOF, MOC, and STA on VAT Policies for the Purchase of Equipment by R&D Institutions* (MOF, MOC and STA Public Notice [2023] No. 41) extended the incentive of full amount VAT refund for the purchase of domestic equipment by domestic and foreign funded R&D institutions to accelerate the process of innovation-driven development.





Data-enabled tax governance: Embracing the era of digitisation of tax administration

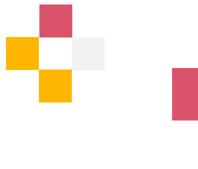


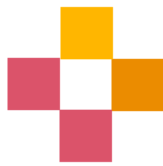
With the deepening of China’s tax system reform, the pace of modernisation of tax collection and administration is also accelerating. The *Opinions on Further Deepening the Reform of Tax Collection and Administration* (the “Opinions”) issued by the General Office of the CPC Central Committee and the General Office of the State Council in March 2021 established the road map for promoting the modernisation of China’s tax system during the 14th Five-Year Plan period, which also drew the blueprint for the development of smart taxation in China against the backdrop of digitisation. The Opinions sets out the overall objectives, directions and roles of the Golden Tax Project Phase IV (“Golden Tax IV”), and proposes to take the electronic invoice reform as the break-through to lay a solid foundation for “data-enabled tax governance”.

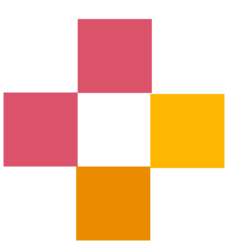
Golden Tax IV – The infrastructure for “data-enabled tax governance”

Since the “tax-sharing reform” in 1994, the Golden Tax Project has achieved fruitful results in phases. In Phase I, a VAT invoice cross-auditing system was set up, starting the exploration of the “invoice-based tax administration” model. To advance the construction of “invoice-based tax administration” mechanism, a whole-cycle supervision system of VAT invoices was put in place in Phase II. In Phase III, a tax administration system covering all types of taxes and fees with comprehensive data integration was built up. The development of Golden Tax Project reflects the vital role of tax informatisation in upgrading the capability of tax collection and administration.

Based on these achievements, Golden Tax IV will further expand and enhance functionality and strengthen collaboration and data sharing through the use of advanced technologies such as big data, cloud computing, blockchain, and artificial intelligence. Adhering to the new concept of “data-enabled tax governance”, it carries the mission of digital transformation of the taxation system. Its ultimate goal is to realise smart taxation with high integration functionality, high security performance and high application efficiency. It aims to establish an intelligent application platform that supports taxpayers, tax officials and policy makers, and, driven by digital integration of information and comprehensive interactions, facilitates the method transformation, process optimisation and efficiency improvement of tax administration.







According to the timetable proposed in the Opinions, year 2023 is an important time node, by which the "four new systems" of tax enforcement, tax service, tax supervision and tax co-governance would be basically established. Based on tax big data and its intelligent application, targeted law enforcement, refined services, precise supervision and collaborative governance have advanced continuously. For example, the list of "non-contact" tax and fee matters has expanded to cover 233 items by the end of 2023, making online handling of tax matters a routine for taxpayers; targeted tax policy notification and risk alert services have been further optimised based on "data+rules"; "cross-provincial tax services" have gradually progressed, which enables cross-provincial electronic tax payment and facilitates cross-region enterprise relation; and with the online "cross-border tax service for non-TREs", non-resident taxpayers could now perform tax filing online. Meanwhile, with the realisation of intelligent collection of "legal person-based" and "natural person-based" tax information, the inter-departmental data sharing mechanism and dynamic "credit+risk" supervision mechanism are continuously improved. Tax administration is shifting from the mode mainly relying on experiences and post-event adjustments to precise and categorised supervision based on tax big data. In the tax cases disclosed in the latest couple of years involving high-risk industries, sectors and taxpayers, intelligent tax big data analysis has played a critical role in risk warning and precise supervision.

Full-scale roll-out of fully digitised e-invoices

Authentic and accurate data is essential for tax big data analysis as well as the realisation of comprehensive "data-enabled tax governance". The Opinions proposes to build "data-enabled tax governance" based on the reform of electronic invoices. The steady advancement of the reform is also the core of Golden Tax IV. According to the objectives set out in the Opinions, China expects to achieve universal use of electronic invoices in all fields by 2025.

Since December 2021, the pilot programme of fully digitised electronic invoices ("digitised e-invoice") has been launched in Shanghai, Guangdong Province (excluding Shenzhen) and Inner Mongolia Autonomous Region. By August 2022, the pilot of digitised e-invoice receipt has been rolled out nationwide, and by the end of 2023, the pilot of digitised e-invoice issuance has progressed in full swing across China.

For taxpayers, compared with traditional invoices, the characteristics of digitised e-invoices, such as dematerialisation and de-formatting, make the invoice management more streamlined, convenient and flexible. The invoice quota administration with dynamic adjustment based on taxpayers' tax credit rating improves the convenience of using invoices, and promotes the integration of business, financial and tax data within the enterprise. The digitisation, automatic collection, and integrated recording and filing of invoice data not only improve the invoice delivery efficiency, but also simplify the internal documentation management process, which helps enterprises enhance the informatisation and digitisation of financial management. The e-invoice service platform integrates applications such as invoice issuance, delivery, verification and credit selection to provide "one-stop" services for enterprises. In the meantime, the data

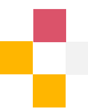
integration and interaction also lay the foundation for tax authorities to improve the pre-filling function and realise direct data connection with enterprises in the future.

While assisting enterprises in reducing costs, improving efficiency and enhancing management, digitised e-invoices also bring new challenges to enterprise tax risk management. On the one hand, the implementation of digitised e-invoices pose new requirements for enterprise informatisation and digitised tax management. To this end, enterprises need to establish and optimise their own systems and processes to improve the efficiency of invoice issuance, enhance the management of collecting, checking, verifying, reconciling, credit selecting and filing of input invoices, and strengthen the internal risk control for invoice and transaction management. On the other hand, the application of digitised e-invoices will facilitate tax authorities to achieve the whole-cycle risk control on invoices. The administration and use of digitised e-invoices are directly associated with the tax risk level and tax credit rating of enterprises, therefore imposing higher requirements on enterprise tax risk control.

In the process of promoting the implementation of digitised e-invoices, authorities have made efforts to improve relevant laws and regulations to consolidate the legal basis for the reform. The third revision of the *Administrative Measures on Invoices of the PRC* (the "Measures") was finalised in 2023 and came into effect on July 20. The revision is closely related to the electronic invoice reform. It clarifies the legal status and statutory effects of electronic invoices to ensure effective connection with relevant rules for recording and filing of electronic accounting documents. Specific revisions have been made with respect to the use of electronic invoices, for example, introducing risk level administration for invoice requisition and identity authentication for invoice issuance, and adding in the management requirements on invoice data and provision of electronic invoice services. The revision of the detailed implementation rules of the Measures also progressed accordingly and was officially released in January 2024.

In addition, the National Archives Administration, together with MOF, MOC and STA jointly issued the *Guidelines for the Full Cycle Digitised Management of Electronic Invoices* in 2023, which summarises the relevant laws, regulations, and standard specifications, and comprehensively sorts out the key points for electronic invoice issuance, receipt, reimbursement, recording and archiving management, providing important references for enterprises and public institutions.

Looking back at 2023, with the implementation of digitised e-invoices nationwide, the construction of smart taxation has made significant progress, and China has been steadily transforming its tax administration toward "data-enabled tax governance". Looking ahead to 2024, the electronic invoice reform will continue to advance. Natural System services have been launched by tax authorities across the country. By providing operation rules and establishing the data model and systems for qualified enterprises, the Nature System connects the enterprise' business systems, such as transaction and finance, with the information system of the tax authorities, gradually achieving data interconnectivity between the two. All these will further promote comprehensive intelligent data collection and analysis, and contribute to the digital transformation and upgrading of tax collection and administration. Enterprises also need to continuously strengthen and improve tax risk management capabilities, proactively layout and accelerate the digital and intelligent transformation of business, finance and tax functions to embrace the era of comprehensive digitalisation of tax administration.



Openness and sharing: Paving the way for enterprises going global and brought in

The year 2023 marks the 10th anniversary of the Belt and Road Initiative. Over the past decade, with the goal of high-quality construction of the "Belt and Road" and promoting a win-win international tax system, China's tax authorities have been committed to strengthening the negotiation and revision of bilateral tax treaties. As of 17 October 2023, China's tax treaty network has covered 114 countries and regions, basically covering the major destinations of China's foreign investment and most of the partners along the "Belt and Road". Data shows that from 2013 to 2022, China's tax authorities have eliminated international double taxation of more than RMB 30 billion for taxpayers through the Mutual Agreement Procedure (MAP) under tax treaties.

Meanwhile, various industries have witnessed a continuous expansion of opening up. From the forex perspective, the level of facilitation of cross-border trade, investment and financing continues to improve, and the channels for cross-border capital flows continue to expand. From a tax perspective, the STA has established a cross-border investment tax service mechanism to serve the high-quality opening up. On the one hand, this helps Chinese enterprises going global understand the business environment and tax system of overseas investment destinations, and prevent foreign investment tax risks. On the other hand, through improving tax policies and service initiatives and facilitating non-TREs' handling of cross-border tax matters, it also serves to attract high-quality foreign enterprises.

"TaxExpress": Innovative initiative to serve cross-border investment needs

"TaxExpress" is a service brand the STA built for cross-border taxpayers, which aims to launch a series of innovative international tax service initiatives by local tax authorities to meet taxpayers' needs. Enterprises going global may face many tax challenges in the process of establishing overseas investment holding structure and subsequent business operations, including the eligibility of enjoying tax treaty benefits, determination of tax resident status, permanent establishment related risks, and the particularities of domestic tax laws in the destination country.

To provide more comprehensive support, the STA and local tax authorities launched the *Overseas Tax Case Library* in September 2023. The case library is compiled based on tax cases publicly reported by overseas media, aiming to enhance enterprises' awareness of overseas tax risks and legal remedies for tax disputes, and help enterprises plan overseas investment arrangement in advance.

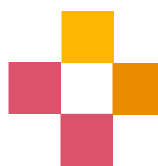
As part of the "TaxExpress" brand service, the Chinese tax authorities have also compiled *Country (region) Investment Taxation Guides* of over a hundred countries (regions), which provide an overview of the host countries' business environment and tax administration system. Moreover, the "TaxExpress" also includes "FAQs for cross-border taxpayers", responding to hot cross-border tax queries such as export VAT rebates and outbound payment, and *Going Global Taxation Guide*, which summarises common tax risks faced by enterprises going global with regular updates. These address the needs of cross-border taxpayers to properly apply tax laws and regulations, and provide tax certainty for taxpayers investing and operating overseas, thus better facilitate high-level opening up.

Simplified information disclosure requirements for TREs on outbound investment

In 2014, the STA issued Public Notice [2014] No.38, setting forth the administrative guidelines for Chinese TREs to report information of outbound investment and overseas income. It was the initial procedural requirements for systematic collection of information on taxpayers' overseas investment. In September 2023, the STA further issued Public Notice [2023] No.17, alleviating the compliance burden for enterprises going global in three aspects, i.e. reducing the number of forms, lowering the frequency of submission, and simplifying the data reporting.

Firstly, Public Notice [2023] No.17 consolidates the original "Form of shareholding information on foreign companies by TREs" and "Form of Controlled Foreign Corporation (CFC) information" into a redesigned information disclosure form on outbound investment by TREs. Secondly, the submission is now due at the time of CIT annual filing instead of upon CIT quarterly filing, significantly reducing the reporting frequency of enterprises. Thirdly, the information disclosure form has been optimised and upgraded and focuses more on quantitative data to simplify the date reporting.

From the perspective of internal tax risk management, the simplification of information disclosure forms do not exempt enterprises from properly fulfilling the reporting obligations. Enterprises need to self assess whether the overseas investees are CFCs, and further judge whether they need to deem the undistributed overseas profits as dividends to the TREs for China CIT purposes, and comprehensively determine the portion attributable to China as well as the impact of foreign tax credits.



New online "cross-border tax service for non-TREs" on e-tax

In April 2023, the STA rolled out the online "cross-border tax service for non-TREs" nationwide. Specifically, when a non-resident enterprise obtains income from equity transfer of a non-listed company (excluding restricted shares), and declares CIT (if there is no withholding agent) and stamp duty on its own, it can complete "real-name authentication" remotely through "email registration + ID document uploading + manual verification". Upon verification, the enterprise can obtain a unique tax identification number (TIN) and the "legal person-based" identity file. This TIN is recognised across the Chinese mainland, hence the non-TRE can handle tax-related matters such as tax filing and payment at the e-tax bureaus nationwide.

The "cross-border tax service for non-TREs" is the first innovative scenario launched across the country in 2023. The new scenario is still at an early stage of operation, thus the system design and operation procedures may slightly vary among provinces, and room for further improvement exists in terms of tax calculation, payment methods, and obtaining tax payment certificates. However, from the perspective of non-resident taxpayers, the nationwide universal login identification and the element-guided filing process will in the long run facilitate to reduce repetitive tax-related tasks and simplify the compliance work. This will optimise the experience of international taxpayers and make cross-border tax services more convenient.

On the other hand, from the perspective of tax administration, the new scenario is also conducive to tax authorities' collection of non-TRE tax source information, enabling unified national tax source administration on non-resident taxpayers. It will enhance the efficiency of tax supervision and further promote the cross-border tax compliance.

Global transformation and response strategies

In 2023, amidst the lingering impact of the COVID-19 pandemic, escalating geopolitical conflicts, and high inflation in numerous countries, international tax, trade, and investment regulations are undergoing rapid changes. Chinese enterprises need to understand the latest trends in global business environment changes and get prepared in advance.

Implementing the Two-Pillar solution

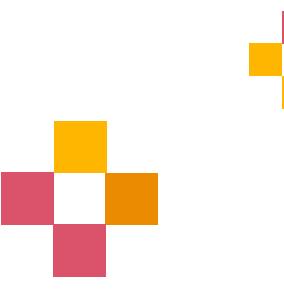
The Two-Pillar solution represents the most significant international tax reform initiative in nearly a century. In 2021, over 130 jurisdictions reached a consensus on the Two-Pillar solution framework. In July 2023, the second statement on the Two-Pillar solution was signed by 138 member jurisdictions of the Inclusive Framework. This statement encompasses the latest achievements of the Two-Pillar solution and serves as a crucial milestone in the framework design and implementation of the Two-Pillar solution.

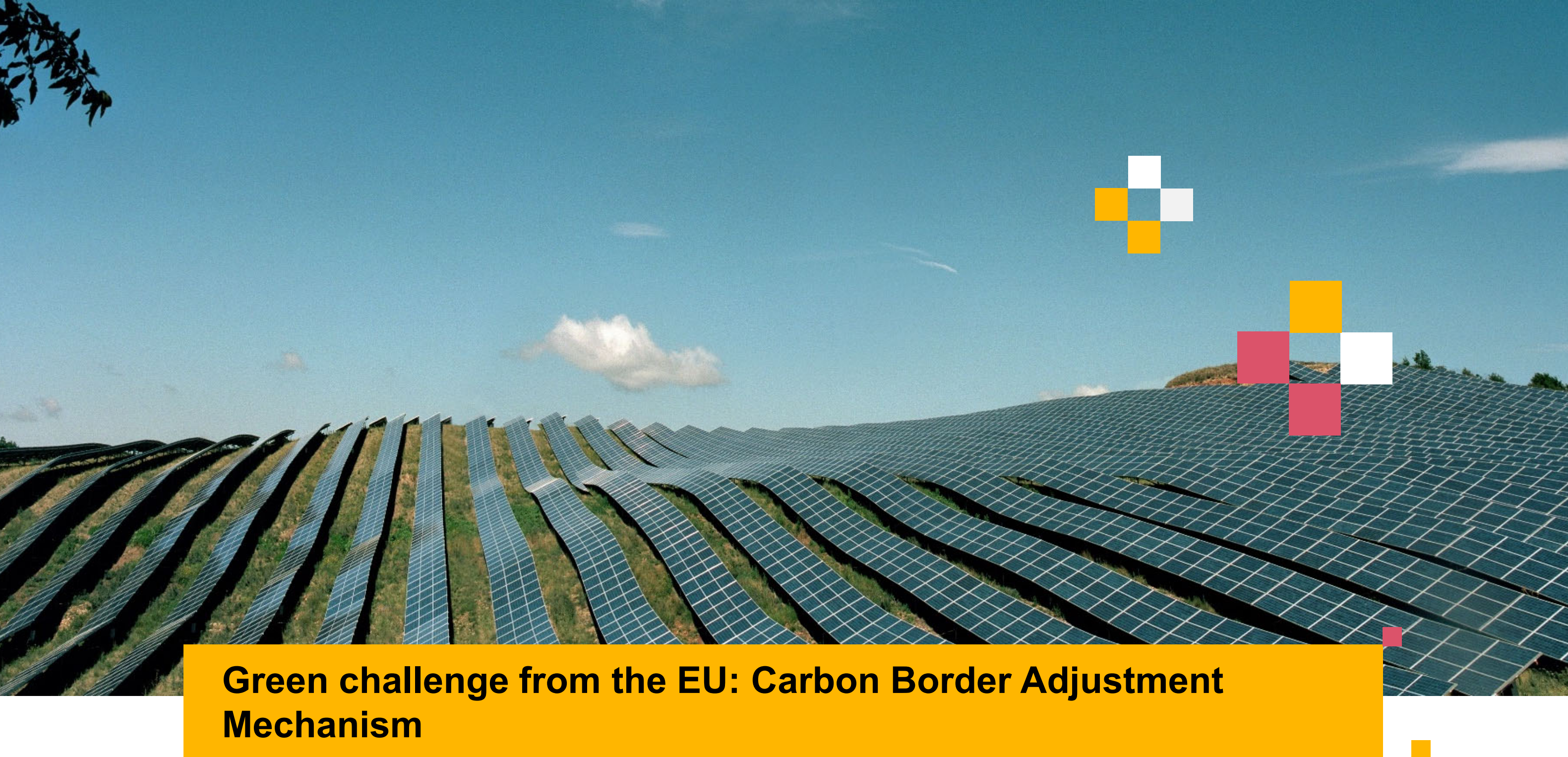
The Two-Pillar solution covers two sets of rules: Pillar One and Pillar Two. Pillar One balances the international tax revenue distribution in the context of digitised economy by redistributing the taxing rights on global profits of large multinational enterprises (MNEs); Pillar Two sets a bottom line for tax competition by implementing the global minimum tax rules to ensure that MNEs pay a minimum tax in each jurisdiction. According to the forecast, an estimated USD 200 billion in profits is expected to be reallocated to market jurisdictions annually under Pillar One, leading to an increase in global tax revenue of approximately USD 17-31 billion per year. Meanwhile, Pillar Two is projected to generate an additional USD 200 billion in global tax revenue annually.

As of the end of 2023, the OECD had sought public consultation on the building blocks of Amount A under Pillar One. In July 2023, the OECD released the draft Multilateral Convention (MLC) to implement Amount A of Pillar One. This draft MCL aims to coordinate taxing rights among jurisdictions to avoid double taxation. While some jurisdictions have raised concerns to specific parts of the draft MLC, efforts are underway within the Task Force to resolve these differences in order to reach a final agreement. According to the statement released by the OECD in December 2023, members of the Inclusive Framework reaffirmed their commitment to achieve a consensus-based solution and to finalise the text of the MLC to implement Amount A of Pillar One by the end of March 2024, with a view to hold a signing ceremony by the end of June. Additionally, a second draft framework for Amount B of Pillar One was released for public consultation in September 2023. The final version has been completed and incorporated into the OECD Transfer Pricing Guidelines in February 2024.

Progress on Pillar Two has been faster than Pillar One. As of the end of 2023, the OECD Inclusive Framework had developed the model rules for the Global Anti-Base Erosion (GloBE), along with a series of guidance and compliance documents to facilitate the implementation of GloBE. This indicates that the GloBE rules have already had the technical basis to legislate domestically. Some jurisdictions (such as the UK, South Korea, Japan, Germany, and Vietnam) have completed their domestic legislative processes and have started to implement the GloBE rules in 2024. Other jurisdictions are currently in the process of domestic legislation and plan to implement the GloBE rules in 2024 or later. More than 55 jurisdictions have taken measures to prepare for the implementation of the GloBE rules. Due to the sequencing rules identifying the tax administration which has the taxing right to collect top-up taxes under the GloBE rules, the first batch of jurisdictions introducing the global minimum tax may trigger a domino effect, encouraging more jurisdictions to implement GloBE.

Furthermore, the International Accounting Standards Board (IASB) has considered the potential impacts of the GloBE rules and made amendments to International Accounting Standards (IAS) 12 - Income Taxes. This includes: 1) a temporary exception to the accounting for deferred tax assets or liabilities arising from the implementation of GloBE legislative framework and the disclosure of related information; and 2) targeted disclosure requirements based on the progress of GloBE legislation. Some multinational groups may be required to disclose the potential impacts of implementing the GloBE rules in their 2023 annual financial reports. Starting from 2024, MNE groups will be required to disclose any current income taxes incurred in relation to GloBE in their financial statements. When formulating strategies and planning commercial arrangements, MNE groups should also assess the tax implications, gather the related information, and prepare for the disclosures. This requires consideration of the business operations of the group and the status of the GloBE legislation in various jurisdictions.





Green challenge from the EU: Carbon Border Adjustment Mechanism

As a key component of the “European Green Deal”, the EU’s Carbon Border Adjustment Mechanism (CBAM) plays a significant role in regulating and monitoring carbon emissions. It is designed to align with the EU Emissions Trading System (EU ETS) policy of reducing free allowances, bridging the gap between the carbon price in the country of origin of imported products and that in the EU ETS. This measure seeks to prevent enterprises from engaging in high-carbon emission production in regions with more lenient emission regulations, and exporting products to the tightly regulated EU, avoiding carbon emission restrictions.

In May 2023, the EU formally adopted the CBAM legislation. According to the legislation, CBAM shall be implemented from 1 October 2023 and the first three years are transitional period. During this period, importers are only required to report the volumes of imported products and the embedded CO2 emissions in those products on a quarterly basis, with no carbon tariffs. Starting from 1 January 2026, following the end of the transitional period, carbon tariffs will be officially imposed on relevant imports to the EU. Importers must fulfil their filing obligations to the CBAM registry by 31 May every year and purchase certificates based on the carbon emissions generated during the manufacturing process of the imported products. The categories currently covered under the CBAM include steel, cement, aluminium, fertilisers, electricity, and hydrogen. It is expected that by 2030, all products within the scope of the EU ETS will be covered by the CBAM.

Under the EU’s green initiatives, Chinese exporters face certain challenges. The high level carbon tariffs could significantly raise the total costs for EU importers, potentially weakening the competitiveness of products exported from China to the EU. While the products subject to carbon tariff are limited to the six categories at current stage, it is anticipated that more types of products will be included in the scope of carbon tariffs over time. Enterprises that may be affected are advised to initiate carbon emission baseline assessments as soon as possible during this period. To overcome the restrictions imposed by CBAM and turn challenges into opportunities through green transformation, enterprises also need to take actions proactively including benchmarking against internationally recognised methods to formulate low-carbon transformation plans, and accelerating the exploration to upgrade their low-carbon technologies.

Implementation of the EU Foreign Subsidies Regulation

Chinese enterprises are also faced with a range of challenges from the EU beyond tax. On 17 June 2020, the European Commission published a *White Paper on Levelling the Playing Field as regards Foreign Subsidies* (the "Paper") for public consultation. The Paper highlighted that subsidies provided by non-EU governments to enterprises entering the EU market can distort fair competition within the EU internal market. This poses a significant threat to the open trade market and investment environment of the EU and undermines the fair competition environment for economic activities in the EU. In mid 2021, the European Commission published the draft *Foreign Subsidies Regulation* (the "Regulation") based on the consultation. On 28 November 2022, the EU Council officially adopted the Regulation upon the approval by the European Parliament.

The Regulation shall apply from 12 July 2023. From 12 October 2023, companies engaging in concentrations (mergers and acquisitions) or public procurement procedures in the EU that have received foreign subsidies in the previous three years and have reached the relevant thresholds will have to make a prior notification with the European Commission and obtain the Commission's approval prior to the implementation of the transaction or the award of a contract. Meanwhile, the European Commission has the power to initiate ex officio review on a case-by-case basis. The Regulation provides a broad definition of foreign subsidies, which mainly include the transfer of funds or liabilities, the foregoing of revenue due, such as tax exemptions, and the provision/purchase of goods and services. Once it is determined that an enterprise has received foreign subsidies, various indicators must be considered to assess whether these subsidies have distorted competition within the EU internal market. The European Commission may take into account the negative effects of the subsidies in terms of distorting the EU market and the positive effects of encouraging the economic activities on an overall basis, and decide whether to approve the transactions, to impose redressive measures, to accept commitments, or to prohibit transactions, so as to remedy the distortion in the EU market actually or potentially caused by a subsidy.

The Regulation will impose compliance burdens and impacts on Chinese enterprises investing or operating in the EU. Cash financial subsidies and various tax reliefs obtained by Chinese undertakings from Chinese governments at all levels are likely to fall within the scope of foreign subsidies under the Regulation. Some common commercial transactions (such as loans or facilities obtained from policy banks or state-owned commercial banks, debt-to-equity swaps, debt restructuring, equity investments from government investment funds, and government public procurement) may also be recognised as foreign subsidies under the Regulation. These are factors that the European Commission may take into account when determining whether the financial subsidies will distort the EU internal market. More importantly, the Regulation may significantly impact the investment timeline in the EU. For enterprise groups with preliminary plans to invest or operate in the EU, the notification obligations and the European Commission's review process should be considered in advance in order to facilitate the transaction.

Outlook for 2024

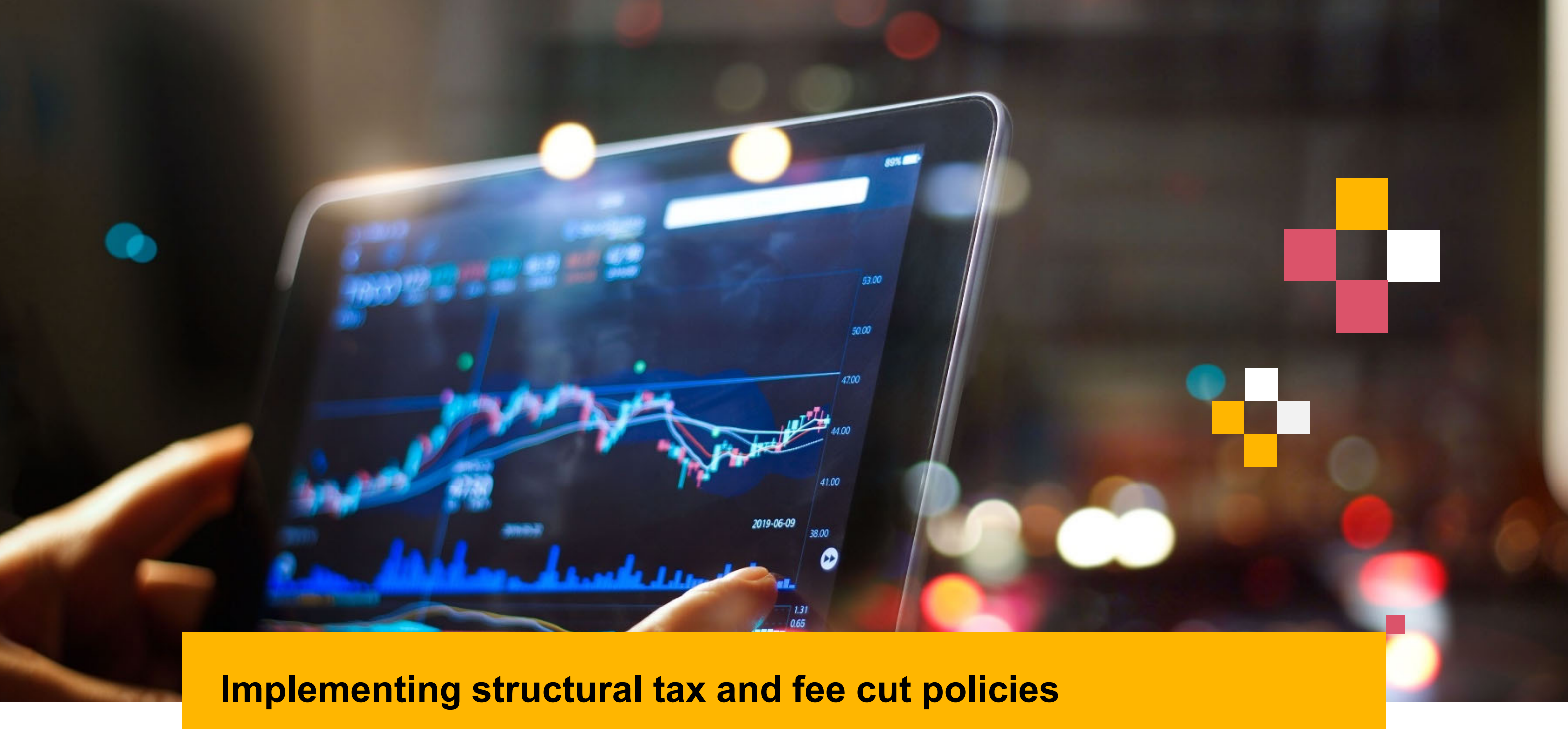
Looking ahead to 2024, the Chinese economy is expected to sustain its steady recovery and development. According to the *Government Work Report* of the Two Sessions in 2024, China will continuously act on the principles of “seeking progress while maintaining stability, promoting stability through progress, and establishing the new before abolishing the old”. China will continue to adopt proactive fiscal policies, and make appropriate improvements to enhance the quality and effectiveness. PwC anticipates that the domestic and international tax developments will continue to evolve in 2024.

Promoting tax legislation

All-round tax legislation stands as one of the key objectives during the 14th Five-Year Plan period, and the year 2024 is a crucial year in realising the tax legislation plan. The legislation on 12 out of 18 taxes had been completed by the end of 2023. According to the *Legislative Work Plan of the Standing Committee of the 14th National People's Congress* announced in early September 2023, the VAT law, the Consumption Tax Law, the Tariff Law, and the Law of Tax Collection and Administration are all listed as top-priority projects, which have relatively mature conditions for legislation and will be given top priority for review and progression during the five-year term of the Standing Committee of the 14th National People's Congress. Among them, the second draft of the VAT Law (Draft) and the Tariff Law (Draft) were released for public consultation in the second half of 2023. The legislative preparations for these two taxes are relatively adequate, indicating the possibility of approval in 2024.

Implementing the global minimum tax

As the legislative framework and administration measures for global minimum tax are gradually improving, some jurisdictions have completed the domestic legislation for the global minimum tax. The first jurisdictions implementing the global minimum tax will have it come into effect starting from 1 January 2024. Although China has not yet announced whether and when to implement the global minimum tax rules, due to the sequencing rules involved, the implementation in other jurisdictions may affect Chinese MNE groups in terms of top-up taxes. It should be noted that China is one of the signatories of the statement on the Two Pillar solution in October 2021 and also a member of the Inclusive Framework supportive to the global minimum tax rules. In addition, China has been an active participant throughout the process of designing the legislative framework for the global minimum tax. Chinese fiscal and tax authorities are actively conducting research and listening to the voice of enterprises. With the implementation of the global minimum tax rules in some jurisdictions in 2024, more practical experiences will be available for Chinese authorities, which will also provide valuable references and insights for China's subsequent policy-making and tax administration.



Implementing structural tax and fee cut policies

According to the National Conference on Taxation held in January 2024, China's newly implemented tax and fee cuts, tax refunds and tax-and-fee deferrals amounted to RMB 2,228.99 billion in 2023. Small-scale taxpayers, small and micro enterprises, and advanced manufacturing industries benefited most. It evidenced that 2023 tax and fee cut policies were precisely targeted to small and micro enterprises and advanced manufacturing industries. These measures played an important role in supporting small and micro enterprises, promoting technological innovation and high-quality development in the manufacturing industry. The fiscal and tax policies for 2024 will continue to prioritise structural tax and fee cuts, aiming to reduce the tax burden on specific targets and groups. Efforts may be made to effectively implement R&D-related preferential policies and tax incentives to stimulate investment. Compared to inclusive preferential tax policies, structural tax and fee cuts will better balance fiscal pressures and improve policy efficiency and effectiveness.

New era of "data-enabled tax governance"

In 2023, the pilot programme of fully digitalised e-invoice issuance has been rolled out nationwide, marking China's transition into a new era of "data-enabled tax governance". With the use of digitised e-invoices, tax authorities will be able to oversee the whole-cycle data of invoice issuance, delivery, recording, crediting through archiving. Facilitated with the big data comparison and analysis, tax authorities could effectively crack down tax-related offenses and crimes, such as fraudulent invoicing and tax evasion. It is foreseeable that tax administration in terms of risk assessment will become more accurate and comprehensive in the future. Therefore, enterprises shall enhance internal tax risk management and control to effectively address the challenges brought about by the digital transformation of tax administration.

Tax supervision dynamics in key areas

In 2023, tax authorities performed targeted inspections on a number of high-tech enterprises nationwide and 550 enterprises were determined disqualified. Tax authorities also strengthened normalized tax supervision in the entertainment sector and toughened the crackdown on activities such as fraudulent invoicing and export tax rebates related crimes. According to the National Conference on Taxation held in 2024, Chinese tax authorities will continue strengthening targeted enforcement in high-risk and key areas, with a particular focus on addressing "tax haven" issues associated with the non-compliance in attracting investment locally. Irregular local tax and fee incentives introduced for investment attraction purpose may accompany with uncertainties or even risks of claw-back.

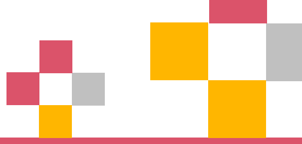
Exploring advance tax rulings

With the development of law-based taxation in China, taxpayers are in increasing need of certainties in tax law enforcement. In recent years, local tax authorities (such as those in Guangzhou Nansha and the Yangtze River Delta, etc.) have sought to provide advance rulings as customised services for large enterprises. At the end of 2023, Shanghai Municipal Tax Service of the STA issued the *Administrative Measures for Advance Tax Rulings by Shanghai Municipal Tax Service (Trial)*, creating a new pattern of tax administration and services. Following the issuance of this policy, enterprise taxpayers in Shanghai can request for advance rulings regarding the application of tax laws and regulations in anticipated complex tax matters. The accumulation of real cases will provide valuable practical experiences for the tax authorities and pave replicable pathways for more local tax authorities to introduce advance ruling services. Driven by these factors, we believe that the advance tax ruling service will be gradually rolled-out and become readily available tax services for the convenience of taxpayers.

Tax measures facilitating the building of a unified national market

The tax authorities have initiated various measures to support the building of a unified national market. In 2023, the STA, together with the MOF and other departments, extended, optimised, and improved 77 preferential tax and fee policies. Furthermore, a total of 115 responses to frequently asked tax questions were released to ensure the consistency in policy implementation across regions, enhance the tax certainty, and further stabilise market expectations. In the meantime, the STA revised and improved the *Implementation Standards for Tax Collection and Administration*, establishing a nationwide standardised framework for tax collection and administration. Additionally, the *Standards for Tax Services* has been regularly updated to ensure the basic tax services are provided in a consistent way. Further to the implementation of the baseline system for the discretionary powers in tax administrative penalties at provincial level, efforts were made to promote tax authorities in regions of Beijing-Tianjin-Hebei, Yangtze River Delta, Northeast, Southwest, Central-South, and Northwest China to jointly establish regional unified baseline for the discretionary powers in tax administrative penalties. Enforcement information sharing and mutual recognition of enforcement outcomes within each region were also achieved, laying the foundation for the development of a national unified baseline system. Improvement has also been made to build a fair and impartial tax environment through implementing the fair competition review mechanism and abolishing policies and measures that impede the unified market and fair competition. Meanwhile, the tax authorities have been promoting the “cross-provincial tax services”. Further to the pilot programme in regions such as the Beijing-Tianjin-Hebei, Yangtze River Delta, and Chengdu-Chongqing area, measures facilitating tax related matters for cross-region enterprise relocation were implemented nationwide starting from April 2023. The measures streamline the relocation process, reduce the processing time, and provide additional convenience for enterprises operating across regions.

Looking forward, to facilitate and accelerate the development of an open and unified national market with efficiency and fairness, the tax authorities will continue with strict, standardised, fair, and civilised law enforcement, and advance the optimisation of tax administration and services as well as crackdown on tax-related non-compliance associated with investment attraction.



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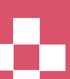

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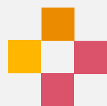

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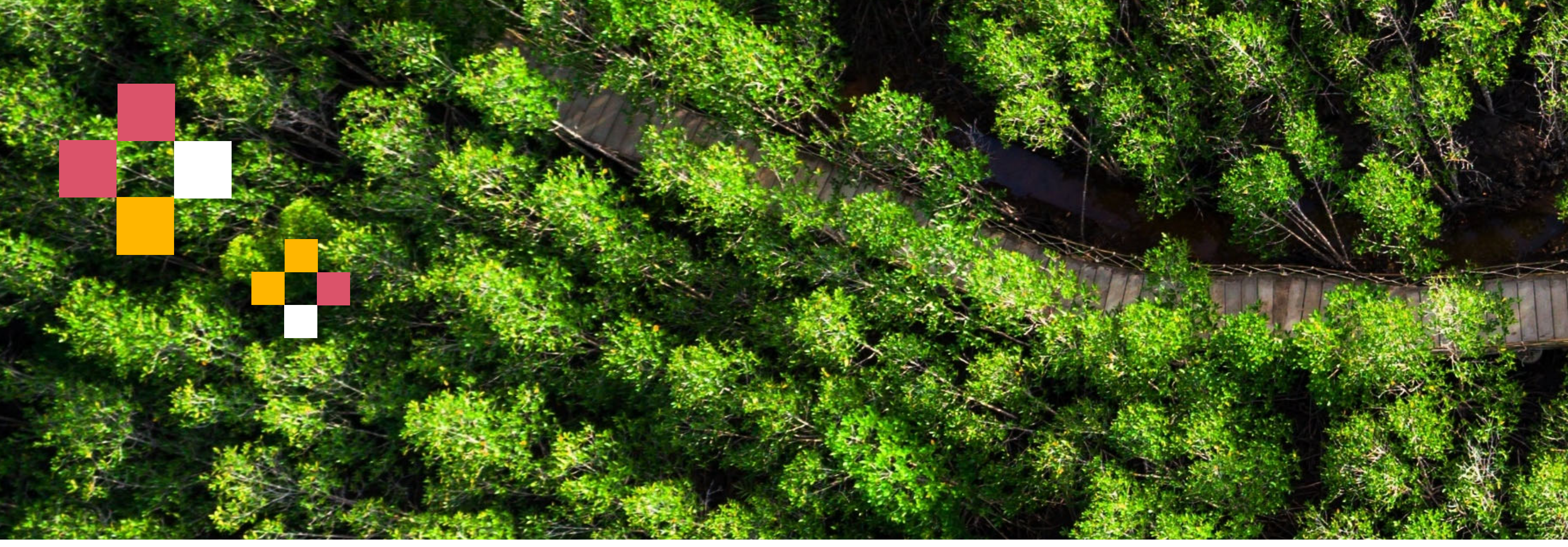

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