

Interpretation of the Announcement of Hainan Provincial Tax Service of the State Taxation Administration (STA) on Issues Related to Preferential Corporate Income Tax Policies in Hainan FTP (Announcement (2020)No.4)

Hainan Provincial Tax Service of the State Taxation Administration (STA) has issued the Announcement on Issues Related to Preferential Corporate Income Tax Policies in Hainan FTP (No.4, 2020, hereinafter referred to as “the Announcement”), and the relevant interpretations are provided as follows:

I. Background for the Issuance of the Announcement

To ensure effective implementation of the Circular of the Ministry of Finance and the State Taxation Administration on Preferential Corporate Income Tax Policies in Hainan FTP (Cai Shui [2020] No. 31), this Announcement has been formulated and issued by Hainan Provincial Taxation Service of the State Taxation Administration to further clarify the specific implementation standards and management requirements related to the policies.

II. Main Contents of the Announcement

(I) A reduced 15% corporate income tax rate applies to enterprises in encourages industries.

1. It specifies the entities eligible for the preferential tax rate. Eligible entities refer to those registered and engaged in substantive operating activities in Hainan Free Trade Port (hereinafter referred to as Hainan FTP), including non-resident enterprise institutions and premises set up in Hainan FTP.

2. It specifies the principles for assessing the eligibility of head offices or branches of enterprises for the preferential tax rate. For an enterprise with its head office located in Hainan FTP, its

eligibility for the preferential tax rate shall be determined based on whether the main business of its head office and branches set up in the FTP (excluding third- or lower-level branches set up in Hainan FTP by second- or lower-level branches outside Hainan FTP) is included in Hainan FTP catalogue of encouraged industries and on the proportion of its main business income in total corporate income. Branches located outside of Hainan FTP shall not be included in the assessment. For an enterprise with its head office located outside of Hainan FTP, its eligibility for the preferential tax rate shall be determined based on whether the main business of its branches set up in the FTP (excluding third- or lower-level branches set up in Hainan FTP by second- or lower-level branches outside Hainan FTP) is included in Hainan FTP catalogue of encouraged industries and on the proportion of its main business income in total corporate income.

3. It specifies the main documents of enterprises to be retained for future reference

(II) Income from newly increased overseas direct investment in three industries shall be exempted from corporate income tax.

1. It specifies the time period of eligible newly increased investments. The newly increased overseas direct investments herein shall refer to those made during the period of January 1, 2020 to December 31, 2014.

2. It specifies the forms of overseas direct investments. The Announcement lists out four different forms of investments: overseas investment in establishing new branches, overseas investment in establishing new enterprises, investment in increasing the capital and shareholding of established overseas enterprises, and investment in acquiring the equity of overseas enterprises.

3. It specifies the main documents of enterprises to be retained for future reference.

(III). One-off deduction or accelerated depreciation and amortization applies for newly acquired assets

1. On the forms of asset acquisition. An enterprise may acquire assets through external purchase, self-construction, self-development, financing lease, donation, investments, non-monetary asset

exchange, debt restructuring and other forms. The asset acquisition mentioned in the Announcement shall include asset purchase in currency, self-construction and self-development.

2. On the determination of asset acquisition time. The preferential policy shall be implemented from January 1, 2020 to December 31, 2024. Therefore, it is necessary to determine whether the asset acquisition is eligible for the preferential policy based on the acquisition date. The Announcement has clearly stated that the acquisition date of a self-developed intangible asset shall be the time when it achieves the intended use. For other intangible assets, please refer to the Announcement of the State Taxation Administration on Issues Related to the Implementation of Corporate Income Tax Deduction for Enterprise Equipment and Facilities (STA Announcement [2018] No.46).

3. On the one-off deduction or accelerated amortization time for intangible assets

The policy of one-off deduction or accelerated amortization of intangible assets is a special way of pre-tax deduction for intangible assets. Therefore, the time of pre-tax deduction should be consistent with the accounting principle of intangible asset amortization. The Announcement has made it clear that one-off deduction or accelerated amortization of an intangible asset shall apply in the year when it is available for use.

4. On the accelerated depreciation and amortization of assets

Where an enterprise adopts shortened depreciation or amortization period, the minimum depreciation or amortization period for its newly acquired assets shall not be less than 60% of the depreciation or amortization period stipulated in the Regulations on the Implementation of the Corporate Income Tax Law; For used assets acquired by the enterprise, the minimum depreciation and amortization period shall not be less than 60% of the remaining period of the minimum depreciation and amortization period stipulated in the Regulations on the Implementation of the Corporate Income Tax Law after deducting the years of serviced life. The minimum depreciation and amortization period shall not be changed once determined.

An enterprise adopting accelerated depreciation or amortization may use the double declining

balance method or sum-of-the-years method. The accelerated depreciation and amortization method shall not be changed once determined.

5. The one-off deduction or accelerated depreciation and amortization policy shall apply to second-level branches and non-resident enterprise institutions and premises set up in Hainan FTP that pay tax based on self-auditing of bookkeeping records, subject to follow-up check by tax authority.

6. It specifies the main documents of enterprises to be retained for future reference.

III. Implementation time of the Announcement

This Announcement shall come into force from January 1, 2020 to December 31, 2024. Due to the late release of the policy, some enterprises may fail to enjoy the preferential tax rate in time when they filed the tax returns for pre-payment in the previous months (quarters). Therefore, this Announcement has made it clear that enterprises that have not enjoyed the preferential tax rate in time may claim for the preferential treatment when filing the subsequent monthly (quarterly) tax returns and making payment or when making the annual settlement of 2020 according to the relevant provisions.