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Tax

Announcement and Interpretation on the Tax Credit Policy for Direct Investment by Foreign Investors Using Distributed Profits by the State Taxation Administration

Issued by: State Taxation Administration
Issue No.: Announcement No. 18 of 2025 of the State Taxation Administration
Issue Date: July 31, 2025
Effective Date: January 1, 2025
Links: <https://fgk.chinatax.gov.cn/zcfgk/c100012/c5242127/content.html>
https://www.gov.cn/zhengce/202508/content_7034853.htm

To implement the "Announcement on the Tax Credit Policy for Direct Investment by Foreign Investors using Distributed Profits", the State Taxation Administration has further issued supporting announcement and interpretation. The main contents are as follows:

- Where a foreign investor uses the distributed profits to make up the registered capital it has already subscribed for in a domestic resident enterprise, thereby increasing the paid-in capital or capital reserve, such a situation shall be classified as "increasing or converting into the paid-in capital or capital reserve of a domestic resident enterprise in China".
- After a foreign investor enjoys the tax credit policy for reinvestment, if it reduces its capital, withdraws its investment from the invested enterprise, or transfers the equity of the invested enterprise, the time when the calculation of holding the recovered part of the reinvestment ceases shall be determined as the earlier of the month when the invested enterprise completes the equity change or deregistration procedures, or the month when the consideration for the above-mentioned assets or equity is obtained.
- When determining the amount of tax credit, the foreign investor may elect to calculate it at 10% of the reinvested amount or at the dividend tax rate stipulated in the applicable tax treaty. When withdrawing the investment and paying the deferred tax after holding the investment for 60 months, the same rate as that used in calculating the tax credit limit shall be applied. If a foreign investor initially chooses to apply the dividend tax rate provided for in the tax treaty and calculates and pays the tax according to that rate when recovering the investment, but is later deemed by the tax authorities as not meeting the conditions for enjoying the tax treaty and thus needs to pay additional taxes, the foreign investor may adjust and increase its tax credit limit accordingly.
- When a foreign investor makes reinvestment in foreign currency, the amount shall be converted into RMB at the exchange rate on the actual payment date to calculate both the deferred enterprise income tax amount on the reinvested dividend income and the corresponding tax credit limit.
- The order for a foreign investor to withdraw its direct investment is: first, dispose of the investment that has enjoyed the tax credit policy; second, dispose of the investment that meets the conditions but has not actually enjoyed the tax credit policy; finally, dispose of the investment that does not meet the conditions for the tax credit policy.
- If a foreign investor makes multiple reinvestments in the same resident enterprise and enjoys the tax credit policy, when recovering part of the investment, the amount of the recovered investment that has enjoyed the tax credit policy shall be determined in the order of the reinvestment time.

- If an overseas investor who does not meet the requirements improperly enjoys the tax credit policy and thereby underpaying tax, overdue payment shall be charged from the date the credit was actually applied (i.e., the day the tax was offset).
- The creditable tax payable by a foreign investor shall meet the following conditions simultaneously:
 - 1) It is the enterprise income tax payable on the income obtained from the same profit-distributing enterprise;
 - 2) The type of income is dividend, interest, royalty, etc.;
 - 3) The time of obtaining the income is after the reinvestment time.

Announcement on Value-Added Tax Policy Concerning Interest Income from Government Bonds and Other Bonds

Issued by: Ministry of Finance and State Taxation Administration
Issue No.: MOF & STA Circular [2025] No. 4
Issue Date: 31 July 2025
Effective Date: 8 August 2025
Links: <https://fgk.chinatax.gov.cn/zcfgk/c102416/c5242161/content.html>

The main contents of the announcement are as follows:

- Interest income on central-government bonds, local-government bonds, and financial bonds newly issued on or after 8 August 2025 shall be subject to value-added tax.
- Interest income on such bonds issued before 8 August 2025—including any tranches re-opened on or after that date—shall remain exempt from value-added tax until the bonds mature.

Announcement of the State Taxation Administration on Matters Concerning Optimizing Enterprise Income Tax Prepayment Declarations

Issued by: State Taxation Administration
Issue No.: Announcement No. 17 of 2025 of the State Taxation Administration
Issue Date: July 7, 2025
Effective Date: October 1, 2025
Links: <https://fgk.chinatax.gov.cn/zcfgk/c100012/c5241820/content.html>

The main contents of this announcement are as follows:

- Tax credit for specialized equipment can be applied upon prepayment:

Previously, enterprises claiming the income-tax credit for purchasing specialized equipment used for energy-or-water-saving, environmental protection, or workplace safety could do so only during the annual return. Following the announcement, such enterprises may choose to take the credit either when making prepayments or in the annual filing, at their discretion.

- Refining the tax treatment for self-operated exports, commissioned exports and agency exports:

Enterprise that exports goods on its own account or under commission shall declare the revenue derived from the exported or commissioned exported goods produced or sold by the enterprise itself.

Enterprises that export goods through agency shall, when making prepayment declarations, simultaneously submit the basic information of the actual commission exporter and the details of the export amount. Otherwise, it shall be treated as self-operated export, and the enterprise shall be responsible for declaring and paying the enterprise income tax corresponding to the relevant export amount.

- Revision on the method for allocating taxes between the head office and branches:

The method for allocating taxes between the head office and branches currently applied in the annual filing is extended to each prepayment period. That is, an enterprise first allocates the amount of income tax payable by the end of the current month (quarter), then the head office and branches respectively offset the prepaid taxes they have been allocated, and calculate the amount of income tax to be paid or refunded in the current month (quarter). Through this revision, if an enterprise fails to accurately calculate the allocated taxes in the previous prepayment stages or if a branch is deregistered in the current quarter, the new calculation method will recalculate the annual allocated taxes through a full-volume apportionment method, making the tax calculation in the prepayment stage more accurate.

Legal

Interpretation on Several Issues Concerning the Application of Law in the Trial of Labor Dispute Cases (II)

Issued by: Supreme People's Court of the People's Republic of China
 Issue No.: Fashi [2025] No.12
 Release Date: July 31, 2025
 Effective date: September 1, 2025
 Links: <https://www.court.gov.cn/fabu/xiangqing/472691.html>

The "Interpretation (II)" focuses on addressing hot and difficult issues such as non-compete clauses, mixed employment, social insurance contributions, and contract renewal. The following key points deserve attention:

- Protecting employees' basic rights: In response to phenomena such as subcontracting, layered contracting, affiliation, and mixed employment, it clarifies the primary responsibility of employers, including contractors, affiliated entities, and related units.
- Regulating non-compete clauses: It specifies that non-compete restrictions apply only to employees with access to confidential information, and the scope and duration of such restrictions must align with the degree of confidentiality. It also confirms the legal validity of non-compete clauses during employment and refines compensation rules for breaches by employees.
- Clarifying conditions for contract conclusion:
 - 1) It lists four scenarios that qualify as "consecutively signing two fixed-term contracts," preventing employers from evading open-ended contracts through tactics like "automatic renewal" or "changing contracting entities."
 - 2) If employment continues for more than one month after contract expiration without renewal, the employee may demand a renewal under the original terms or an open-ended contract. If the employer terminates the contract under such circumstances, they shall bear corresponding legal liabilities.
- Emphasizing mandatory social insurance contributions: Any voluntary waiver or agreement to exempt

social insurance contributions is deemed invalid. Employees may terminate the contract and claim compensation. After the employer lawfully makes up the social insurance payments, it may request the employee to return the previously paid social insurance compensation.

- Defining standards for continued contract performance: If an employer unlawfully terminates or ends a contract and the employee demands continued performance, the "inability to continue performance" must be strictly limited to objective impossibility. Meanwhile, it clarifies the compensation standards for workers during the continued performance period.

Notice of the General Office of the Ministry of Commerce on Effectively Implementing the Tax Credit Policy for Reinvestment by Overseas Investors Using Distributed Profits

Issued by: Foreign Investment Administration (FIA), MOFCOM
 Issue No.: Shangbanzihan [2025] No. 380
 Issue Date: July 14, 2025
 Links: https://www.mofcom.gov.cn/zcfb/zc/art/2025/art_e14ef69.html

The Notice requires local commerce authorities to implement specific workflows for the tax credit policy on overseas investors' direct investment using profit distributions, rigorously perform eligibility reviews and regulatory duties, and enhance information sharing. Key procedures are as follows:

- Investment filing procedures
 - 1) Overseas investors shall, via the invested enterprise, submit the required information and supporting documents through the "Profit Reinvestment Tax Deferral Filing" module of the MOFCOM's business platform.
 - 2) Upon confirming the accuracy of the information and documents submitted by the invested enterprise, the local competent commerce authority shall forward them to the provincial-level commerce department through the same system.
 - 3) The provincial commerce department, in coordination with relevant government agencies, will conduct a final review. If all conditions are met, it will issue the "Profit Reinvestment Confirmation Form" to the invested enterprise.
- Information reporting on the recovery of investments: For overseas investors that have enjoyed tax credits and are recovering their investments, similar to the process of investment filing, information shall be reported as required through the invested enterprise via the MOFCOM's business platform. The local commerce authority in the jurisdiction of the invested enterprise shall verify such information through cross-checking with foreign investment reporting records and submit the findings to the provincial-level commerce department for confirmation.

Customs

Notice of the PRC Customs on the Regulatory Measures for the Hainan Free Trade Port and the Tax Policies for Circulation within the Island

Issued by: General Administration of Customs, Ministry of Finance, State Taxation Administration

Issue No.: Announcements No. 158 and 159 of 2025, Finance and Taxation [2025] No. 12 and 13
 Issue Date: July 24, 2025; July 18, 2025
 Effective Date: July 24, 2025; December 18, 2025
 Links: https://db.hainan.gov.cn/xxgk/xzgfwj/t20250724_3902324.html
https://db.hainan.gov.cn/xxgk/xzgfwj/gjygwj/20250724_7.html
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5241947/content.html>
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5241950/content.html>

With effect from 18 December 2025, the Hainan Free Trade Port (“HN FTP”) will officially launch the custom-sealed operations. The entire island of Hainan will become a special customs-supervised zone operating under the core principle of “open front line, controlled second line, free movement within the island” (the “front line” being between HN FTP and locations outside China’s customs territory; the “second line” being between HN FTP and the rest of mainland China).

A concise outline of the new post-closure policies is set out below.

- The scope of “beneficiary entities” eligible for “zero-tariff” treatment—i.e., exemption from import customs duty, import VAT, and import consumption tax—will be significantly expanded. In addition to independent legal-person enterprises and public institutions already registered in HN FTP, private non-enterprise entities in the science-and-technology and education sectors are newly included.
- For goods entering via the “first line”, the zero-tariff regime will switch from a positive-list approach to a negative-list approach. Beneficiary entities may import any goods not listed in the “Catalogue of Import-Taxed Commodities” free of customs duty, import VAT, and consumption tax. Consequently, the number of tariff lines qualifying for zero-tariff treatment will expand from the current 1,900 to more than 6,600.
- “Zero tariff” imported commodities and their processed products may circulate freely among beneficiary entities with no need to make up for import taxes.
- Goods produced by encouraged-industry enterprises that contain imported inputs and achieve a processing value-added ratio of 30 % or more in the HN FTP may enter the mainland market exempt from import duties, while import VAT and consumption tax are levied in accordance with the applicable regulations.
- Zero-tariff goods that fall under any of the “Four Categories of Measures” (tariff-quota administration, trade-remedy measures, suspension of tariff concessions, or additional/retaliatory tariffs) remain subject to the relevant national rules when imported via the “first line”.

Human Resources

Implementation Plan for the Childcare Subsidy Scheme

Issued by: General Office of the Central Committee of the Communist Party of China, General Office of the State Council
 Release Date: July 28, 2025
 Links: https://www.gov.cn/zhengce/202507/content_7034133.htm

As part of childbirth support policies and incentive mechanisms, the main contents of the Plan are as follows

- Recipients and standards:
 - 1) Target recipients of the subsidy: Starting from January 1, 2025, subsidies shall be provided to children under the age of 3 born in compliance with relevant laws and regulations, continuing until the child reaches 3 years old. Childcare subsidies are available for the first, second, and third child.
 - 2) Subsidy standards: Childcare subsidies are distributed annually, with the current national baseline standard set at RMB 3,600 per child per year. For infants born before January 1, 2025 and under the age of three, subsidies will be calculated based on the number of months eligible for subsidy. Childcare subsidies are exempt from personal income tax. When determining eligibility for minimum living allowance recipients, special hardship cases, and other assistance programs, childcare subsidies shall not be counted as family or individual income.
- Application Process: Childcare subsidies are applied for by either parent or other legal guardians at the infant's household registration location. Applications are primarily submitted online through the Childcare Subsidy Information Management System, with offline applications also accepted.
- Subsidy disbursement timing and channels: Each province shall determine the specific disbursement timing based on local conditions to ensure that subsidies are promptly and fully disbursed to the applicant or the infant's bank card or other financial account.

Recent Hot Topics

- For corporate income tax deduction purposes, are the requirements for deducting remuneration paid for labor services the same as those for deducting employees salary expenditures?
- What are the respective criteria for enterprises to apply for the refund of retained VAT input credits and incremental VAT input credits? In practice, can all qualified enterprises successfully obtain the tax refund?
- If the target company's paid-in capital is extremely low or even zero, can it successfully complete the FDI registration required for a cross-border equity transfer (the seller is foreign and the buyer domestic, or the reverse)?

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