

Green Tax Research Report 4

Does the Environmental Performance of Enterprises of Comprehensive Resource Utilization Affect Tax Incentives?

Introduction

Green economy will be the general trend of future economic development. According to the "Thirteenth Five-Year" Energy-saving and Environmental Protection Industry Development Plan, its output value reached 4.5 trillion yuan in 2015, with more than 30 million employees, outstanding industrial advantages and strong ability to absorb employment. It is one of the important driving forces for economic growth. The Fourteenth Five-Year Plan issued in October 2020 also pointed out that it is necessary to comprehensively improve resource utilization efficiency, promote total resource management, scientific allocation, comprehensive conservation, recycling, and improve the development and protection level of mineral resources.

Driven by policies, the green environmental protection related industry will usher in new changes. Environmentally friendly and resource-saving green economic development has become a new trend in future development. As an important part of green environmental protection related industries, China has been vigorously developing the comprehensive utilization of resources industry in recent years and promoting green production.

SIP Lvse Jiangnan Public Environment Concerned Centre (hereinafter referred to as Lvse Jiangnan) observes that some comprehensive resource utilization companies still have environmental violations while receiving tax incentives. This not only affects the normal operation of the taxation mechanism but also affects the healthy development of the competitive market. Therefore, under the guidance of relevant national policies and regulations, Green Jiangnan actively verifies the performance of corporate environmental responsibility to help tax authorities identify corporate environmental risks, optimize tax policies, improve the level of corporate independent information disclosure, promote energy conservation and emission reduction, so as to give full play to tax incentives, Promote the healthy and sustainable development of enterprises.

In this report, Lvse Jiangnan verified the environmental supervision of 262 comprehensive resource utilization enterprises across the country, and initiated communication with the taxation departments of 29 provinces or municipalities across the country by sending letters. As of the publication of this report, Lvse Jiangnan has received more than 20 responses. After sorting out the response and the content, we found that the tax authorities in many places have late recovery of corporate value-added tax and environmental tax. Secondly, enterprises that are eligible for tax incentives failed to file in time, resulting in failure to obtain the incentives.

1. Overview of the development of the comprehensive utilization of resources industry

1.1 Introduction to Comprehensive Utilization of Resources

Comprehensive utilization of resources is an important means to give play to the low-carbon economy. Specifically, it refers to the "comprehensive development and rational utilization of symbiosis and associated minerals in the process of mining resources. The recovery and rational use of waste residues, waste water (liquid), waste gas, waste heat, and pressure, etc., generated during the production process. Various waste materials generated in the production and consumption process are recycled and reused."

Since 2010, China has been the world's largest manufacturing country for many consecutive years. In the face of the international green development trend and the current situation of domestic resource shortage, how to accelerate the green development of the manufacturing industry, promote the upgrading of the industrial structure, and enhance the overall competitive advantage has become a

problem we are actively thinking about. Comprehensive utilization of resources, as an important means to achieve green economic development, is consistent with the country's green growth and green consumption circular economy model from an economic and environmental perspective. It can be seen that the comprehensive utilization of resources industry will usher in new development opportunities. In the future, more and more social capital and professionals will be invested in the environmental protection industry to promote the standardization, rationalization, greening and sustainable development of this field.

1.2 Status Quo of Development of Comprehensive Utilization of Resources Industry

In 1985, the State Council approved and forwarded the "Interim Regulations on Several Issues Concerning the Comprehensive Utilization of Resources" issued by the State Economic and Trade Commission (Guo Fa [1985] No. 117). The state encourages enterprises to actively carry out comprehensive utilization of resources and is supported by the country's preferential tax policies. Under the circumstance, the industrial scale of the comprehensive utilization of resources industry continues to expand.

According to the data from the National Annual Report on the Prevention and Control of Environmental Pollution by Solid Waste in Large and Medium-sized Cities in the past four years issued by the Ministry of Ecology and Environment, comprehensive utilization of resources, the utilization rates of general industrial solid waste, bulk industrial solid waste, and bulk coal ash industrial solid waste have reached 40%, 50%, and 70% respectively.

However, in the development process of some comprehensive resource utilization enterprises, due to excessive pursuit of economic benefits and neglect of environmental benefits, they have caused "secondary pollution" to the environment. There are many cases where environmental violations have been filed and fined by the environmental protection department. The penalty amount is one of the important indicators to measure whether a company can reasonably obtain tax incentives. However, the phenomenon that some enterprises are punished for environmental illegal emissions but still receive tax incentives will not be conducive to the development of the comprehensive resource utilization industry, and it will also affect the correct development of the tax incentive mechanism.

2. The leverage effect of the green tax system on the development of comprehensive resource utilization industries

Taxation, as one of the policy instruments, is an important means for the state to regulate market development and business operations; and a scientific, complete, fair and efficient taxation policy will have a non-negligible significance for market and business development. The construction of a green taxation system will promote economic development while realizing environmental protection and sustainable development.

In 2013, the Ministry of Finance and the State Taxation Administration issued the "Notice on Issues Concerning the Implementation of Pollutant Emission Standards for Taxpayers Benefiting from Preferential Value-Added Tax Policies for Comprehensive Utilization of Resources." Clarified the implementation of pollutant emission standards for taxpayers benefiting from the preferential value-added tax policy for comprehensive utilization of resources.

This tax policy not only encourages the development of enterprises using comprehensive resources, but also puts forward higher requirements on the environmental performance of enterprises using comprehensive resources. As an important part of the green environmental protection industry, while receiving tax incentives, comprehensive resource utilization enterprises should pay more attention to their own environmental performance and avoid tax risks.

2.1 Tax incentives and environment related penalties in value-added tax

According to the "Notice of the Ministry of Finance and the State Taxation Administration on Printing and Distributing the Catalogue of Preferential Value-Added Taxes on Products and Services for Comprehensive Utilization of Resources" (Caishui [2015] No. 78), enterprises in comprehensive utilization of resources must meet the following five conditions before benefit from the VAT refund policy.

- 1) Is a general taxpayer of value-added tax
- 2) The products and services sold are comprehensive utilization of products and services, which do not belong to the prohibited or restricted items in the "Industrial Structure Adjustment Guidance Catalog" of the National Development and Reform Commission.
- 3) The comprehensive utilization products and services sold do not belong to the high-polluting, high-environmental-risk products or heavy-polluting processes in the "Comprehensive Directory of the Ministry of Ecology and Environment".
- 4) If the resources comprehensively utilized by the enterprise belong to the hazardous wastes in the "National Hazardous Waste List" of the Ministry of Ecology and Environment, it shall obtain the "Hazardous Waste Management Permit" issued by the Ecological Environment Bureau at the provincial level and above, and the permitted business scope includes the utilization of the hazardous waste .
- 5) The tax credit rating is not classified as C or D by the tax authority.

Among them, the impact of Article 5 "Tax Credit Rating" on the comprehensive utilization of resources enterprises to obtain tax incentives is mainly reflected in the tax credit rating. That is, the higher the rating, the more convenience the company will get. Trustworthy companies can not only enjoy tax incentives, but also obtain convenience in financing, taxation services, project management, and procurement. Secondly, the ratio of value-added tax concessions to enterprises in comprehensive utilization of resources is different. According to the type of comprehensive utilization of resources, four levels of tax rebate ratios have been set respectively, namely 100%, 70%, 50%, and 30%. For example, if more than 95% of the fuel used in the product is derived from coal-bed methane produced during coal mining, a 100% tax refund will be given. If 90% of the raw materials of the product are from waste rare earth products and their dismantled materials, and meet the technical requirements of the National Development and Reform Commission, Ministry of Ecology and Environment, Ministry of Industry and Information Technology, "Rare Earth Smelting Industry Cleaner Production Evaluation Index System", they will receive 30% Tax refund.

In addition, the announcement also Clarified that if taxpayers who have benefit from the VAT refund policy are punished for violation of taxation or environmental protection related laws and regulations (except for warnings or a single fine of less than 10,000 CNY), within 36 months from the month after the penalty decision is issued, they will not be eligible for the VAT refund policy.

2.2 Tax incentives and environmental penalties in environmental taxes

The Environmental Protection Tax Law is China's first tax law that specifically embodies the green tax system and promotes the construction of ecological civilization. Since its implementation on January 1, 2018, it has played an important role in actively guiding and urging enterprises and related units to take the initiative in energy conservation and emission reduction.

Article 12 (4) of the Environmental Protection Tax Law clearly stipulates that the solid waste comprehensively utilized by taxpayers shall be temporarily exempted from environmental tax if it meets the national and local environmental protection standards. However, if the concentration of taxable pollutants (air or water) discharged by taxpayers is lower than the national and local emission standards, environmental taxes are required.

2.3 Tax incentives and environmental penalties for other taxes

Other taxes involved in comprehensive resource utilization enterprises mainly include corporate income tax, resource tax, etc. According to Article 33 of the Enterprise Income tax Law, "income derived by an enterprise from making comprehensive use of resources and producing products in conformity with the provisions of the state industrial policy may be deducted in the calculation of the tax payable. Income from products recognized by the state and in line with national and industry-related standards will be reduced by 10% and then included in the total."

The "Resource Tax Law of the People's Republic of China" has been implemented since September 1, 2020. According to the needs of national economy and social development, the State Council can stipulate exemption or reduction of resource tax for situations that are conducive to the promotion of resource conservation and intensive use and environmental protection, and report to the whole country. For the record, the Standing Committee of the National People's Congress. For example: if taxpayers mine co-associated mines, low-grade mines, and tailings. Provinces, autonomous regions, and municipalities directly under the Central Government may decide to exempt or reduce resource tax.

3. Feedback and analysis

3.1 Overview of the development of enterprises that generate environmental risks in the comprehensive utilization of resources

Among the comprehensive resource utilization enterprises in 29 provinces, cities, and autonomous regions across the country, this report focuses on 262 enterprises with records of environmental violations. These companies are mainly distributed in six provinces: Jiangsu, Hebei, Zhejiang, Shandong, Anhui, and Henan, accounting for 64.8%.

The years in which the above-mentioned 262 comprehensive resource utilization companies have environmental supervision records are mainly concentrated in 2016-2018. In 2018, the average fine for each company reached 111,900 CNY.

3.2 Implementation process

Lvse Jiangnan selected the "List of Taxpayers Benefiting from VAT Refunds for Comprehensive Utilization of Resources in xxx Provinces/Cities and Autonomous Regions in 2018" published on respective official webpage. A total of 262 enterprises with comprehensive utilization of resources with environmental supervision records during 2016-2018 (except sewage treatment enterprises and waste incineration enterprises, except warning or single fine of less than 10,000 CNY) were selected as the key focuses of this report.

Based on this, Lvse Jiangnan sent a letter to the tax bureaus of 29 provinces, cities, and autonomous regions across the country to verify the impact of environmental and safety violations on corporate tax incentives. Based on the feedback from the taxation authorities in various regions, we will analyze the implementation and follow-up of the green tax policies for the 262 comprehensive resource utilization companies that have been sent this time, and look forward to the promotion of the environmental safety assessment system and green tax system for multi-regional resource comprehensive utilization companies. Improve and help enterprises in the comprehensive utilization of resources to identify their own environmental risks, legally and compliantly to enjoy national tax preferential policies, and promote a more healthy development of the national green tax system.

3.3 Feedback analysis from tax authorities

As of the release of this report, Lvse Jiangnan has received detailed feedback from 20 tax authorities. 3 indicated that they were in the verification stage, 5 indicated that they had recovered the corporate value-added tax, environmental tax and added overdue payments after verification, and the other 5 indicated that the situation mentioned in the letter by Lvse Jiangnan did exist, but they had already recovered it before receiving the letter.

Based on the feedback from tax bureaus, we sorted out and analyzed and made relevant suggestions for companies and ecology and environment departments.

3.3.1 Environment related penalties for not causing actual pollution to the environment does not affect the tax preference for enterprises

Environmental pollution affects enterprises' tax incentives. Then, what kind of environmental-related penalties the enterprises receive will not affect their tax incentives?

Five tax bureaus called Lvse Jiangnan and stated that the preferential filing of value-added tax refunds for products and labor services for comprehensive resource utilization by enterprises will not affect tax incentives after environmental protection penalties. In addition, three tax bureaus stated that if the company's environmental penalties are revoked or the company submits a written administrative penalty defense to the Ecology and Environment Bureau, or the penalty amount drops to 10,000 CNY or less, also does not affect the company's preferential taxation.

Taking Hunan Province as an example, a staff member of the Hunan Provincial Taxation Bureau called Green Jiangnan and stated that of the three companies involved in the letter, two of them enjoyed tax incentives because they were filed after environmental protection penalties, so they did not affect their enjoyment of value-added tax. In the previous research report, we also mentioned a similar situation, so no additional explanation is given here. Another company started construction of de-oil facilities without going through the environmental impact assessment procedures and was basically completed before the inspection by the ecological environment department, so it was administratively punished by the environmental protection department. However, because the facility has not actually been put into operation and has not discharged taxable pollutants to the external environment, it is a procedural violation of the law, so no environmental tax is involved.

3.3.2 The Taxation Services and the Ecological and Environment Department establish a real-time data sharing mechanism

Enterprises have been punished by the Ecology and Environment Department for their illegal environmental emissions, but some of the enterprises that have been punished still benefit from the preferential environmental tax policies of the Taxation Services. The Taxation Services of Hebei, Shaanxi and Chongqing stated in their replies to Lvse Jiangnan that there were cases of recovering preferential taxation from enterprises in the later period because the Taxation Services and the Ecology and Environment Department did not share information in a timely manner.

The staff of the Guizhou Provincial Taxation Service called Lvse Jiangnan and said that since 2019, the Guizhou Provincial Taxation Service has established an information exchange mechanism with the Ecology and Environment Department, which basically guarantees data exchange once a month.

After receiving the letter from Lvse Jiangnan, the Zhejiang Provincial Taxation Service replied that the Zhejiang Provincial Taxation Service has established a real-time data exchange mechanism with the Ecology and Environment Department. Zhejiang Provincial Taxation Service is at the forefront of big data nationwide. Generally, there will be no such phenomenon that enterprises that have been penalized for environmental violations will receive tax incentives.

The practices of these two Taxation Services are worth learning from other provincial and municipal Tax Services.

3.3.3 4 enterprises in Guangxi province and 1 enterprise in Yunnan province were required by the tax bureau to pay taxes and overdue payment

Guangxi Guigang Hongqi Paper Co., Ltd. was fined RMB 550,000 by the Ecological Environment Bureau on February 20, 2019 (because of excessive emissions in August 2018). However, the company

still declared and received environmental tax exemption even in the case of excessive emissions. According to the relevant content of the "Environmental Protection Tax Law of the People's Republic of China" (Presidential Order No. 61 of the People's Republic of China), it does not meet the requirements of relevant preferential tax policies. Lvse Jiangnan communicated and reminded with the Tax Service in a timely manner by writing a letter, and the Tax Service asked the company to pay taxes and overdue payments after verification. At present, the company has paid the environmental tax of 4384.45 CNY and overdue payment of 1714.32 CNY as required.

China Rare (Guangxi) Jinyuan Rare Earth New Materials Co., Ltd. was fined RMB 50,000 by the Ecological Environment Bureau in 2018 for violating the solid waste management system. In 2019, he was fined 100,000 CNY by the Ecological and Environment Bureau for exceeding the standard or exceeding the total amount of pollution. According to the "Notice of the Ministry of Finance and the State Administration of Taxation on Printing and Distributing the Catalogue of Preferential Value-Added Tax on Products and Services for Comprehensive Utilization of Resources", the enterprise shall not benefit the value-added tax refund policy from the month following the environmental protection penalty. Through the letter to the Lvse Jiangnan, the Taxation Services of Pinggui District, Hezhou City, Guangxi Province, after verification, found that the company did violate the regulations to obtain tax incentives. On December 1, 2020, it issued the "Tax Matters Notice" to the company. The value-added tax that has been obtained from December 2012 to April 2020 is 5289371.83 CNY to be recovered, and the company is informed that it is not allowed to apply for the refund of value-added tax policy within 36 months from the month following the environmental related penalty. On December 3, 2020, the company paid the corresponding taxes and overdue payment.

Guangxi Huasu Group Co., Ltd., in June 2017, filed the tax reduction and exemption record of the VAT tax refund policy for comprehensive utilization of resources in the Guangxi Zhuang Autonomous Region Tax Service. After Lvse Jiangnan's letter reminded, the bureau's investigation and verification found that the company still received a VAT refund in violation of regulations after receiving environmental-related penalties in 2018. At present, the tax bureau has provided tax guidance to the company and asked it to correct the relevant preferential policies enjoyed by the company in violation of regulations. As of February 1, 2021, the company has completed the correction and paid the corresponding tax.

Guangxi Baise Yinhai Power Generation Co., Ltd. was fined RMB 2 million as an administrative penalty on June 21, 2018 due to a large amount of dust generated by the loading and unloading of coal ash in the ash storage yard, which violated the relevant regulations of the Air Pollution Prevention and Control Law. However, the company still received a VAT refund for comprehensive utilization of resources despite environmental penalties. After Green Jiangnan sent a letter to remind, the Guangxi Baise Taxation Service further verified that the company did have a phenomenon of illegally enjoying tax incentives, and has been requested by the tax department to pay the tax rebate obtained from July 2018 to June 2020. The company has completed the repayment procedures and paid the value-added tax of 14,309,425.50 yuan on February 5 and February 18, 2021.

Yunnan Xinfang Department called Lvse Jiangnan and stated that one of the companies mentioned in the letter by Lvse Jiangnan had violated the regulations and received a VAT refund, which is currently being pursued by relevant departments. In the later stage, Lvse Jiangnan will continue to communicate and feedback.

When the Guangdong Provincial Taxation Service called Lvse Jiangnan, it said that the environmental data of the blue map is complete and professional, and it has become an auxiliary instrument for the taxation service's future work environment data sources. The Guangdong Provincial Taxation Service also stated that in the past, if the tax services needed to verify the environmental information of a company, it would take time and energy to contact the Ministry of Ecology and Environment or go to the official website to find out. The Big Data of the Blue Map makes it easier for tax services to find relevant information such as corporate environmental supervision records.

The government, enterprises and society are linked by multiple parties to build trust and jointly promote green development. The Hebei Provincial Taxation Service stated that due to the promotion

of the Lvse Jiangnan environmental protection organization, the taxation department has further strengthened the promotion and guidance of corporate tax policies; secondly, Guangxi Shenglong Metallurgical Co., Ltd. also visited Lvse Jiangnan for active communication and expressed that it will cooperate with more than 300 associations. Steel companies hope to join the blue ecological chain to actively do information disclosure work and accept social supervision.

4. Development and Suggestions

4.1 Enterprises in the comprehensive utilization of resources must accelerate technological upgrading to achieve carbon neutrality

On September 22, 2020, at the General Debate of the Seventy-fifth United Nations General Assembly, General Secretary Xi Jinping clearly stated that China will adopt more powerful policies and measures, will strive to reach the peak of carbon dioxide emissions by 2030, and strive to achieve carbon neutrality by 2060.

What are the important guiding opinions for the development of comprehensive resource utilization enterprises when the carbon neutral target is put forward? China's population base is large, and the per capita possession of important resources is far below the world average. The utilization and development of comprehensive resource utilization industries are particularly critical. However, in the face of the complicated political and economic situation at home and abroad, all countries pay special attention to and pay attention to environmental issues, and are actively advocating the greening of the global supply chain. This puts forward higher requirements for the development of Chinese enterprises. Enterprises in the comprehensive utilization of resources must accelerate technological innovation to achieve energy conservation and emission reduction across the entire industry chain, thereby supporting the realization of the national carbon neutral goal.

4.2 Improve the big data sharing platform and achieve green development

At present, the development of big data platforms for ecological environment is relatively mature, whether in the official or third-party, how to use environmental big data to better serve enterprises is the key. Through the blue map, we can intuitively see the corporate environmental supervision records and other environmental data, which provides reference value for companies to choose upstream and downstream partners. Use green procurement to drive green production, and more effectively transform environmental information into large-scale pollution reduction.

Since 2014, IPE has released CITI annual evaluation report every year, ranking according to the overall CITI score of the brand. The higher the score, the higher the brand ranking, which means that the brand's performance in environmental compliance, energy saving, emission reduction and disclosure is more prominent. And the evaluation index mainly uses the regulatory information publicly disclosed by the government and the information and data publicly disclosed by the brand.

After analyzing the replies of the Taxation Services, we found that only a few taxation bureaus and the ecological environment department have established a real-time information sharing mechanism. Most Taxation Services have a lag in obtaining information from the ecology and environment department, this is mainly reflected in the Taxation Services' recovery of corporate value-added tax and other environmental taxes. The Ecology and Environment Department and the Taxation Services should speed up the establishment of information connection channels. China's environmental tax law clearly requires environment authority and tax authorities to establish tax-related information sharing platforms and work coordination mechanisms. On the one hand, the taxation department implements accurate collection based on big data on the ecological environment. On the other hand, the ecological environment department strengthens the environmental supervision of enterprises based on tax-related information, forcing enterprises to save energy and reduce emissions, jointly guide the development of a low-carbon economy, and promote green development.

4.3 Our Proposal

Comprehensive utilization of resources, as an important part of China's development of a green circular economy, is an effective way to solve the two core issues of rational use of resources and alleviation of environmental pollution in the path of sustainable development. At the national level, governments at all levels should continue to reduce taxes and burdens for enterprises, and increase efforts to encourage and support environmental protection industries. In particular, enterprises with good environmental performance should provide more preferential tax support and help. In addition, taxation departments must resolutely implement various green taxation policies and give full play to the fundamental and safeguarding role of taxation in national governance. As for enterprises, it is necessary to increase technology research and development and talent team training, improve the company's soft power and market competitiveness, and strive to build an internationally renowned brand. As for person, strengthen environmental awareness and earnestly practice green production and lifestyle.

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