

Green Tax Research Report (10)

Observation Report on Environmental Tax Revenue of New Wall Materials in China (2)



PECC

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Abstract:

In July 2022, the Ministry of Industry and Information Technology and others jointly issued *the Implementation Plan for Carbon Peaking in Industrial Sectors*, setting out energy consumption control and low-carbon technology replacement targets for key carbon peaking industries such as steel, building materials (cement, glass, ceramics) and non-ferrous metals.

The building materials industry is an important basic industry of the national economy, but also a key area of industrial energy consumption and carbon emissions. In November 2022, four departments, including the Ministry of Industry and Information Technology, the National Development and Reform Commission, the Ministry of Ecology and Environment, and the Ministry of Housing and Urban-Rural Development, jointly issued *the Implementation Plan for Achieving Carbon Peak in the Building Materials Industry*. It is mentioned in the plan that during the 15th Five-Year Plan period, the industrialization of key green and low-carbon technologies in the building materials industry will achieve breakthroughs, the substitution level of raw fuels will be greatly improved, and an industrial system of green, low-carbon, and circular development will be established. To ensure that the building materials sector achieves a carbon peak by 2030. In addition, promoting green manufacturing is listed as one of the key tasks. Green manufacturing is the requirement of carbon peak in the building materials industry. The building materials industry should combine the characteristics of crushing, homogenization, batching, molding, calcination, and other production processes, and focus on the key directions of process low-carbon, industrial recycling, and product green, to promote the green and low-carbon transformation of the whole life cycle of the industry.

As a green building material, the new wall material has obvious advantages. (1) It is beneficial to reduce resource consumption. Among the new wall materials, the hollow clay brick can save a lot of soil resources and coal resources, and the production difficulty is reduced accordingly, so it can greatly improve the passing rate, which can provide more effective material support for the construction project, and save the cycle of material production. Autoclaved aerated concrete can significantly improve the quality of construction by rational application of industrial waste slag. Straw wall materials by using straw or natural straw to make wall materials, not only save raw materials but also have a good environmental protection effect. In short, the new wall materials can realize the transformation of waste into treasure, improve energy conservation and environmental protection of building projects, and play a good role in saving resources. (2) Reduce environmental pollution. The traditional wall is mainly made of solid brick. The combustion of solid brick will produce a lot of harmful gases to pollute the surrounding environment. The application of new wall materials can not only improve the structural quality of the building but also avoid the consequences of environmental pollution.

Energy saving and environmental protection, and reducing resource waste are strict requirements of construction in our country, energy saving in the building is to adapt to this development trend. Our country vigorously promotes the application of new walling materials to achieve the purpose of building energy saving. At present, all provinces in China have issued regulations and identification methods for new wall materials management regulations, and some areas have also carried out law enforcement inspections of new wall materials. It is worth paying attention that, to encourage and support the healthy development of new wall materials, the state has introduced a series of green tax policies, giving various tax incentives and convenience to environmentally friendly enterprises.

In this report, Lvse Jiangnan, according to the official website of the tax bureau of all provinces and cities across the country in 2020 to enjoy the new wall material VAT collection and refund list of taxpayers, with the help of blue map environment big data, the final determination of 89 new wall materials suspected of illegal tax incentives. Lvse Jiangnan communicates with the tax authorities of 36 provinces and cities across the country by sending letters. Up to the release of this report, Lvse Jiangnan has received specific replies from tax bureaus of 17 provinces and cities. Two tax bureaus replied for the first time. After sorting out the replies and contents, we found that tax authorities in many places had expressed their attention to the contents of the Lvse Jiangnan letter and responded to them. There are still some tax authorities who did not give any feedback on the contents of the letter. A total of five companies pursued tax under the push of Lvse Jiangnan.

1. Introduction of tax incentives for new wall materials

To accelerate the sustainable development of the construction industry and promote enterprises to use new wall materials with low pollution, high energy efficiency, and low energy consumption, the state gives enterprises applying new wall materials a series of preferential tax policies to help them adjust and optimize the industrial structure and coordinate ecological environmental protection and industrial development. Related taxes include environmental protection tax, corporate income tax, value-added tax, etc.

Environmental protection tax: the environmental protection tax shall implement a positive incentive mechanism of "paying more for discharging more, paying less for discharging less, and paying no more for discharging." Article 13 stipulates that if the concentration of taxable air pollutants or water pollutants discharged by a taxpayer is less than 30 percent of the pollutant discharge standards set by the state or local government, the environmental protection tax shall be levied at a reduced rate of 75 percent. Where a taxpayer discharges a taxable atmospheric pollutant or water pollutant in a concentration less than 50 percent of the pollutant discharge standards set by the State or local government, the environmental protection tax shall be levied at a reduced rate of 50 percent.

In terms of a value-added tax: According to the Notice of *the Ministry of Finance and the State Administration of Taxation on the Issuance of Value-added Tax Policy on New Walling Materials (Finance and Taxation [2015] No. 73)*, for the new walling materials sold by taxpayers and included in *the Catalogue of New Walling Materials subject to the Policy of VAT Collection and Refund* attached to this Notice, the policy of VAT collection and refund of 50% shall be implemented. Taxpayers who enjoy the policy of VAT collection and refund as

stipulated in this circular shall not enjoy the policy of VAT collection and refund as stipulated in this circular within 36 months from the next month when the penalty decision is issued if they are punished for violating the laws and regulations of tax and environmental protection (except for warnings or fines of less than 10,000 yuan for a single time).

In terms of enterprise income tax: according to *the provisions of [2016] 1580 of the Development and Reform of Finance*, "In case of any illegal act such as pollutant emission standard or pollutant emission exceeding the total emission control target of key pollutants, the enterprise income tax preferential treatment for environmental protection projects will be stopped by relevant regulations of the Ministry of Finance and the State Administration of Taxation." According to the Notice of the Ministry of Finance, the State Administration of Taxation, the State Development and Reform Commission on Releasing *the Preferential Catalogue of Enterprise Income Tax for Environmental Protection, Energy Saving and Water Saving Projects (Trial) (Finance and Taxation [2009] No. 166)*, one of the prerequisites for enjoying the preferential treatment is to meet the national and local pollutant discharge standards and the total emission control targets of key pollutants.

This report takes the VAT tax preference enjoyed by new wall materials as the entry point and contacts the national tax authorities to explore the impact of the implementation of green tax on the construction industry.

2. Feedback and analysis from the tax department

Lvse Jiangnan according to the official website of each province and city tax bureau to enjoy the new wall materials in the 2020 list of levy and return, and with the help of blue map environment big data, screen out 89 suspected illegal tax enjoying enterprises and communicate with 36 provinces and cities tax departments. As of the release of this report, Lvse Jiangnan has received a total of 17 specific replies and 2 preliminary replies; Five companies were ordered to pay taxes.

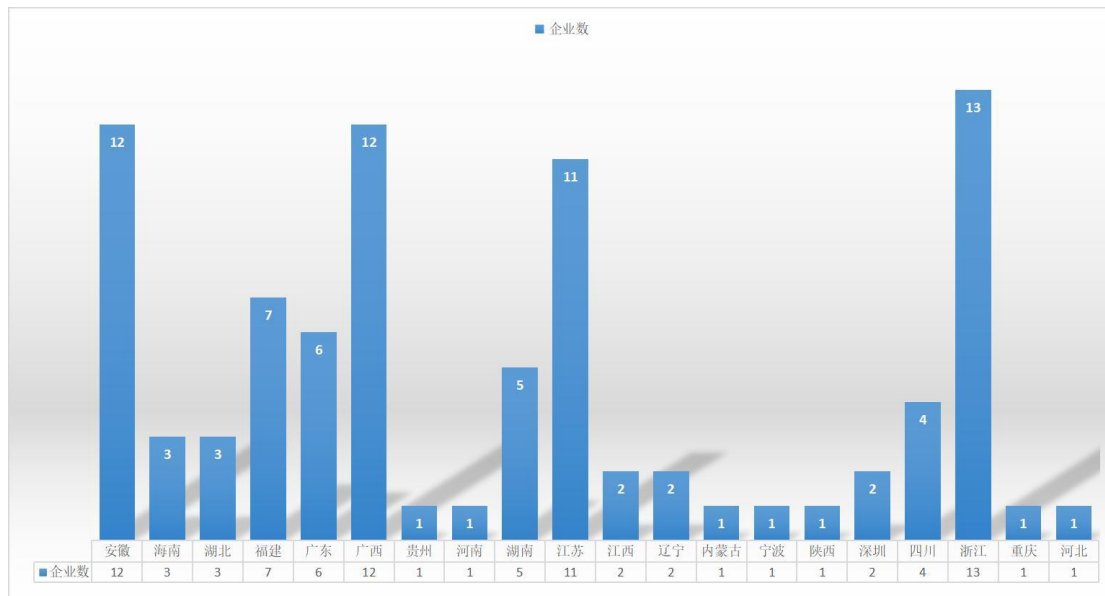


Figure 1 Number of enterprises suspected of illegally enjoying tax incentives nationwide

The most authoritative IPE (Azure Map Enterprise Version APP) ecological environment big data platform has been using social resources and professional organizations to assist in environmental problems since 2006. It has been collecting environmental data, mainly from ecological and environmental departments, including transportation, water conservancy, ocean, land, housing, construction, industry and information technology, development and reform, etc. So far, it has included 12 million enterprises and more than 2 million environmental regulatory records.

Through the analysis of the environmental punishment content of 89 enterprises, we can see that the new wall materials are punished for environmental protection with air and dust pollution as the main reason; And the punishment amount of more than 100,000 yuan enterprises accounted for 50% of the total.

In the Environmental Research Report on Pollution Reduction and carbon Reduction of Building Materials Wharf released by Lvse Jiangnan in November 2022, it is emphatically mentioned that dust pollution is one of the main pollutants of building materials Wharf. Green Jiangnan put forward ten suggestions on environmental governance of building materials wharf. (See Lvse Jiangnan WeChat official account for the full report.)

1) Environmental penalties do not affect tax incentives

On July 12, 2022, the tax bureau of Zunyi City of Guizhou Province called and said that the date of an enterprise being punished for environmental protection is September 2020, and the time for enterprises to enjoy tax incentives is from January to July 2020. Because of the time to enjoy tax incentives before the environmental penalty, it does not affect the enterprise to continue to enjoy the new wall material VAT levy is withdrawn.

Table 1 Environmental regulatory records of enterprises

Area	Enterprise name	Supervision content	Content source
Zunyi, Guizhou	Zunyi Hongda New Building Materials Co. LTD	Zunsuihuan penalty Word [2020]12 Fine: 100,000 yuan	Azure Map ipe.org.cn

A company in Hongjiang, Hunan Province, was fined 100,000 yuan by the

Hongjiang Environmental Protection Bureau on December 25, 2018, for discharging exhaust pollutants that exceeded national standards. And enterprises from April 1, 2020, began to enjoy the new wall material value-added tax collection and refund, environmental punishment occurs before they enjoy the policy of tax collection and refund, do not need to be pursued.

Hangzhou Fuyang 1 enterprise also has a similar situation, the time of environmental punishment is in 2017, and it was filed in December 2018 to enjoy the new wall material VAT levy and refund policy. Hainan Ledong 1 enterprise record enjoys the new wall material value-added tax levy and refund preferential policy time for May 2018, and the date of environmental punishment is March 2018, so it does not affect the enterprise to enjoy tax preferential policy.

On November 30, 2022, the Goods and Service Tax Office of the Inland Revenue Bureau of the Inner Mongolia Autonomous Region called Lvse Jiangnan to inform the 1 enterprise mentioned in the letter: In June 2018, Fengzhen Fuxin Waste Slag Comprehensive Utilization Co., Ltd. was fined 50,000 yuan by the environmental protection department for failing to take anti-scatter, anti-loss and anti-leakage measures at the waste slag stacking site of the unburned brick raw material industry. However, because the enterprise enjoyed the VAT policy of new wall materials for the first time after the environmental penalty, the environmental penalty in the early stage does not affect the enterprise to continue to enjoy tax incentives.

Table 2 Environmental regulatory records of enterprises

Area	Enterprise name	Supervision content	Content source
Hongjiang, Hunan	Hongjiang Longbiao Building Materials Co. LTD	Hong Huan fined Zi [2018] 15 fine: 100,000 yuan	Azure Map ipe.org.cn
Hangzhou, Zhejiang	Hangzhou Fuyang Fulin New Wall Brick Co.,	Fuhuan fine [2017] No. 205 Fine: 30,000	

	LTD	yuan
Ledong, Hainan	Ledong Huawang Agricultural Development Co., LTD. Hongwang Environmental protection brick	Lehuan penalty word (2018) No. 5 fine: 30,000 yuan
Wulanchabu, Neimenggu	Fengzhen Fuxin Waste Slag Comprehensive utilization Co. LTD	Fenghuan fine [2018]-6-12 fine: 50,000 yuan

Yangpu Luda Environmental Protection Building Materials Co., LTD., was punished by the Environmental Protection Bureau for dust pollution and other problems in June 2017. According to the document "Notice of the Ministry of Finance and the State Administration of Taxation on Value-added Tax Policy of New Wall Materials" (Finance and Taxation [2015] No. 73), "Taxpayers who have enjoyed the policy of VAT collection and refund as stipulated in this notice. Those who are punished for violating laws and regulations on tax and environmental protection (except for warnings or fines of less than 10,000 yuan for a single time) shall not enjoy the VAT collection and refund policy stipulated in this notice within 36 months from the next month when the penalty decision is issued." The company only began to enjoy tax benefits in September 2020, in line with the policy. Shaoxing Chengde New Wall Building Materials Co., LTD., Quzhou Qujiang District Longxiang Building Materials Co., LTD., the application for a tax rebate in 2020 has been 36 months from their environmental punishment.

2) Major environmental penalties affect corporate income tax benefits

On July 11, 2022, the Income-tax office of Shenzhen Tax Bureau called Lvse Jiangnan and said that the 1 enterprise mentioned in the letter had enjoyed the preferential income tax for high-tech enterprises, but it could not decide whether the environmental punishment the enterprise had received was significant, so

it could not cancel the preferential income tax enjoyed by the enterprise without authorization.

By Article 19 of the Measures for the Administration of the Accreditation of New and High Technology Enterprises, where an accredited new and high technology enterprise commits any of the following acts, the accreditation agency shall cancel its qualification as a new and high technology enterprise:

- i. There are serious practices of deception in the process of applying for recognition;
- ii. Where a major safety or quality accident occurs or serious environmental violations are committed;
- iii. Failing to report on time the major changes related to the conditions of recognition, or failing to fill in the annual development statement for a total of two years.

Concerning an enterprise whose qualification as a new and high technology enterprise has been canceled, the accrediting authority shall notify the tax authorities to recover the tax preferential treatment of new and high technology enterprise already enjoyed by the enterprise since the date of the aforesaid act in the year according to the Law on the Administration of Tax Collection and other relevant provisions.

Table 3 Environmental regulatory records of enterprises

Area	Enterprise name	Supervision content	Content source
Shenzhen	Shenzhen Shengying New Building Materials Co., LTD	Shenhuan Pingshan Fine [2020] No. 096 fine: 250,000 yuan Shenhuan Pingshan fine [2020] No. 079 fine: 250,000 yuan	Azure Map ipe.org.cn

3) Five businesses were pursued for taxes

On July 19, 2022, Shaanxi Provincial Tax Bureau called Lvse Jiangnan and said that because Lvse Jiangnan sent a letter to prompt, an enterprise in the city was charged 140,000 yuan in tax and 59,800 yuan in late payment.

Table 4 Environmental regulatory records of enterprises

Area	Enterprise name	Supervision content	Content source	Tax recovery period
Shangluo, Shaanxi	Shangluo Sanyou Industry and Trade Co., LTD	Shangzhou Environmental Punishment No. 32 [2018] Fine: 100,000 yuan Shaanxi H Ring Penalty [2021] No. 72 fine: 30,000 yuan	Azure Map ipe.org.cn	October 2018 to present

On August 29, 2022, Hunan Provincial Tax Bureau sent a reply to Lvse Jiangnan. According to the verification of the tax department, four of the five enterprises mentioned in the Lvse Jiangnan letter have illegally enjoyed tax incentives.

Table 5 Environmental regulatory records of enterprises

Area	Enterprise name	Supervision content	Content source	Tax recovery period
Shaoyang, Hunan	Shaoyang Baohong Light Building Materials Co., LTD	Shao City Huan penalty [2018] No. 44 fine: 20,000	Azure Map ipe.org.cn	July 2018 – June 2021
Shaoyang, Hunan	Yongqing New Building Materials Factory, Beita District, Shaoyang City (general partnership)	Shao City Huan penalty [2018] 19 fine: 200,000		April 1, 2018 – March 31, 2021
Shaoyang, Hunan	Chayuan Shale Brick Factory, Beita	Shao City Huan penalty [2018]		April 1, 2018 – March 31, 2021

	District, Shaoyang City (General partnership)	21 fine: 200,000	
Huaihua, Hunan	Huaihua Gangxiang Pipe Pile Co. LTD	Huai Honghuan penalty word [2019] No. 4 fine: 220,000	August 2019 -- June 2022

4) Tax bureau enters Azure Map

On July 11, 2022, Chongqing Tax Bureau called to better serve tax revenue with the help of Azure Map big data. With the help of IPE, Chongqing's tax bureau opened a white list of blue maps. Whitelist users can quickly retrieve enterprise environment data.

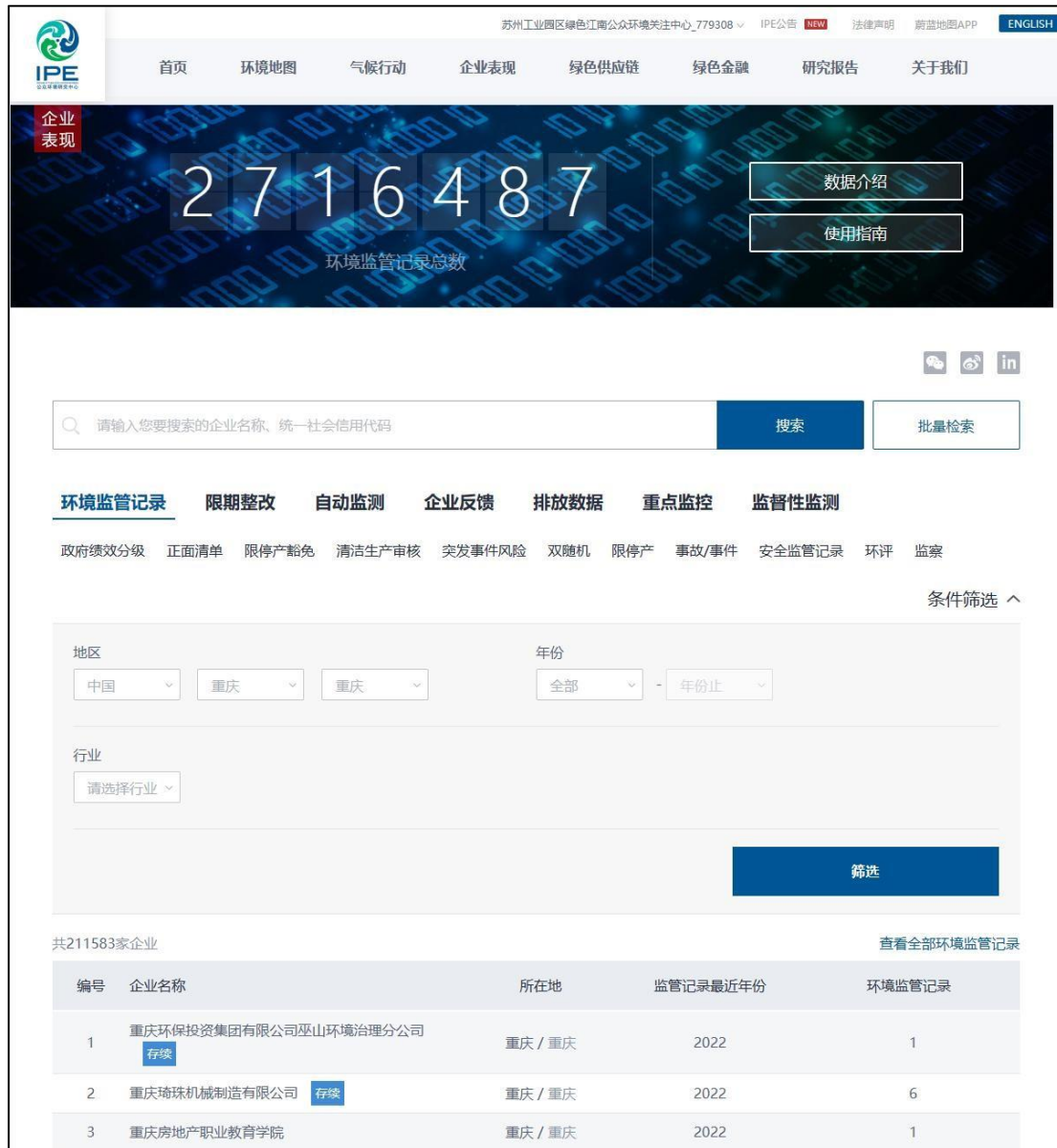


Figure 2 Azure Map environmental regulatory record

3. Progress and development of new wall materials under the guidance of a green tax

The 20th National Congress of the CPC made "promoting harmonious coexistence between man and nature" an important part of the essential requirements of Chinese modernization, and made major arrangements for promoting green development and promoting harmonious coexistence between man and nature. High-quality development is the primary task of building a

modern socialist country in an all-round way. Green taxation is conducive to promoting green and low-carbon economic and social development.

1) The extension of green products to promote the "carbon neutral" properties of the construction industry

At present, "green and low-carbon" has become the main battlefield of the development of new wall materials, and the promotion and use of new wall materials require enterprises to constantly research and develop new technology and supporting products so that they can match with new wall materials. The implementation of environmental protection tax policies by the government and enterprises can not only save energy and make comprehensive use of resources but also promote the diversification of construction products and accelerate the adjustment of industrial structure. In the field of construction, the green products industry with "carbon neutral" performance can accelerate the extension.

2) Help to enhance the normalization of building materials market order

In recent years, with the continuous strengthening of ecological environment protection and the continuous strengthening of the supervision of environmental pollution incidents, standardizing the market order of building materials has gained more attention. In the process of market order management of building materials, there is a certain demand for technical standards of order norms, and the popularization and application of new wall materials can promote the research and development of different market order norms and standards, and technologies. Under the support and guidance of green tax policy tools, the construction materials of enterprises are more innovative, and the wall materials are developing in the direction of green and energy saving, which is also conducive to the orderly management of the

building materials market.

- 3) Help enterprises change their ideas and realize green and sustainable development

With the promotion of tax bonuses, the road to the green development of enterprises is getting wider and wider. In the field of construction, the wide use of new wall materials can improve the level of energy conservation and environmental protection of construction engineering construction, reduce the investment cost of enterprises, and greatly improve the development level of energy conservation of all kinds of engineering projects. While enjoying the economic benefits brought by the green tax, construction enterprises continue to integrate into the energy-saving trend of the construction industry, to achieve green sustainable development.

4. Our initiative

As a public welfare organization committed to environmental protection, Green Jiangnan sincerely puts forward the following suggestions to the government, tax authorities, and enterprises to promote the extensive use of new wall materials and achieve the effect of saving resources, protecting land, and reducing pollution.

- 1) Local governments should give necessary support and help to the manufacturers of new wall materials so that relevant enterprises can strengthen their independent research and development ability and improve the added value of the application of new wall materials.
- 2) Tax authorities should strengthen the use of environmental big data

platforms, pay close attention to the environmental performance of enterprises, and ensure the fairness and justice of tax policies. In addition, tax authorities should actively promote the establishment of a sound coordination mechanism for environmental protection collection and administration, help tax policies play a full role as a "toner", and help enterprises make good use of tax and fee reduction policies and calculate policy dividend accounts.

- 3) Enterprises should standardize their environmental performance, consciously participate in the practice of environmental governance, give play to their subjective role, and timely disclose environmental information, taking the initiative to accept the supervision of social forces.

We hope that the tax authorities can strengthen the application of Azure environment big data, improve the ability of enterprises to screen environmental compliance, carry out extensive cooperation with social organizations, and use social forces and professional institutions to help manage environmental problems. Secondly, the environmental protection department should strengthen the supervision of enterprises, and should not relax the regulatory requirements because of the impact of environmental punishment on tax incentives, resulting in polluting enterprises continuing to enjoy tax incentives. Enterprises should actively assume the main responsibility of environmental protection, and reasonable compliance to enjoy tax incentives.