

CHINA TAX ALERT

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“Permitted Industry Catalogue” announced for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone

Regulation discussed in this issue:

- Announcement of the National Development and Reform Commission for the printing and distribution of “Permitted Industry Catalogue” for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone, Fagaichanye [2013] No.468 (“Permitted Industry Catalogue”).

Background

On 6 March 2013, the National Development and Reform Commission issued the Permitted Industry Catalogue for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone (“Qianhai Cooperation Zone” or “Qianhai”). The promulgation of the Permitted Industry Catalogue is a significant development of the pilot program which was approved and launched by the State Council last year. Please refer to [KPMG China Alert 2012 Issue 18](#) for details of the incentives included in the pilot program.

The six industrial sectors listed in the Permitted Industry Catalogue are an extension of the four key focus areas which were previously announced, being financial services, modern logistics, information services and other professional services, in the State Council’s agreement on ‘The Overall Development Plan for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone’ in 2010.

The release of the Permitted Industry Catalogue is a clear message of the Chinese Central Government’s commitment to encouraging further development and opening up in Qianhai. It provides important guidance regarding the direction of investment, the administration of investment projects and the implementation of preferential policies in relation to tax and finance.

The Permitted Industry Catalogue and the Preferential Catalogue are two crucial elements contained in the ‘Announcement on the preferential policies for Qianhai Shenzhen-Hong Kong Modern Service Industry Cooperation Zone’ (Guohan [2013] No. 58) and form part of the preferential policies for Qianhai. The promulgation of the Permitted Industry Catalogue also indicates that the Preferential Catalogue will likely be finalized in the near future.

Permitted Industry Catalogue

The Permitted Industry Catalogue covers six industry sectors including financial services, modern logistics, information services, technology services, professional services as well as public services. It covers a total of 112 industrial segments as follows:

- **Financial services sector** contains 23 segments including banking financial institutions, non-banking financial institutions, securities, insurance, funds, production exchange market, financial lease, financing guarantees, offshore financial services and other innovative financial services.
- **Modern logistics sector** contains 18 segments including supply chain management, shipping transactions, freight brokerage and consultation services, logistics distribution and express delivery services for e-commerce, aircraft and repair parts transaction services, bonded logistics services (e.g. bonded exhibitions and bonded transactions) and other e-commerce related commercial services.
- **Information services sector** covers 16 segments including basic telecommunication services, value-added telecommunication services, electronic authentication services, e-commerce, digital content services, development and application of internet digital content, technology and the application of high trustworthy computing, intelligent networks, the internet and mobile internet.
- **Technology services sector** includes seven segments covering domestic and overseas research institutions and their branches, international institutions of technological innovations, scientific research services, technological consultation services, transformation and application services of scientific and technological achievements, quality certification, testing and inspection services, information technology outsourcing, business process outsourcing and knowledge process outsourcing.
- **Professional services sector** contains 39 specific services under nine segments, specifically accounting, valuation, legal services, consultation services, engineering services, cultural and creative services, exhibition, educational and medical services and intellectual property services.
- **Public services sector** includes urban public support facilities, technological development and application of environmental protection, resource recycling and energy-saving, leisure services including yachts and aviation, social work services, high-end property management and leasing services.

Other preferential and supportive policies for Qianhai

Since November 2012, the government and regulatory authorities have continually issued regulations to support foreign-invested equity investment enterprises and Individual Income Tax ("IIT") preferential policies for overseas talents and professionals in short supply in Qianhai. These policies aim to encourage and support modern financial services providers and talents to settle in Qianhai.

KPMG observations

The release and implementation of the Permitted Industry Catalogue provides a positive message that the launch of the Qianhai pilot program will hasten. It also indicates that the regulatory authorities of the central government will continue to accelerate the process of policy approval and release. The policies approved by the State Council under the Qianhai pilot program are expected to be launched in the first half of 2013.

Some of the implementation details and specific requirements are not yet entirely clear, however we believe that the government and authorities are working towards issuing specific regulations and clarification of the policy details.

- According to Guohan [2013] No.58, under the current national tax reform, the government encourages and supports Qianhai to explore and gather more experience with tax system reforms for the modern services industry. It states that qualified enterprises are eligible to enjoy a reduced Corporate Income Tax (“CIT”) rate of 15 percent if they meet the requirements contained in the Permitted Industry Catalogue and Preferential Catalogue. The Preferential Catalogue, which is yet to be released, will provide a better understanding of when enterprises are eligible to enjoy a reduced CIT rate.

In addition, details of how the 15 percent CIT will be collected from the qualified enterprises is another uncertainty that needs to be addressed by the government.

- An IIT related policy which was announced at the end of 2012, provides the requirements that overseas talents and professionals in short supply in Qianhai must fulfill in order to enjoy the preferential IIT rate of 15 percent. Effectively the preferential IIT rate will be offered in the form of a rebate from local government. As the talents and professionals will receive the IIT rebate in the following year after collection, it is believed that further application details will be released.
- When establishing an enterprise in Qianhai, foreign investors must also comply with the restrictions set out in the Foreign Investment Industries Catalogue (“FII Catalogue”). Examples of such sectors include basic telecommunication services and value-added telecommunication services as listed in the Permitted Industry section in the FII Catalogue.
- It will need to be clarified whether professionals from overseas who provide professional services listed under the Permitted Industry Catalogue in Qianhai, including accounting, valuation, legal services and consultation services, can practice with the qualifications they obtained from overseas countries or alternatively whether they will have to acquire qualifications/licenses in China in order to operate professional services businesses in Qianhai.
- For high-end property management services under the public services sector, it needs to be determined if there are requirements or restrictions on the location of the property and whether the property assets must be located within the Qianhai area or if the applicable scope can be extended outside Qianhai. The definition of ‘high-end property’ and other related issues are also yet to be clarified.

Although the Qianhai pilot program policies have not yet been fully announced and implemented, investors who are contemplating establishing an enterprise or a branch in Qianhai may conduct their business and tax planning with reference to the Permitted Industry Catalogue. Now is the time to formulate your business strategy and take advantage of Qianhai’s preferential policies to improve your business growth and tax efficiency.

If you are interested in setting up a business operation in Qianhai, KPMG would be pleased to provide you with further information regarding Qianhai. We can also provide other support services in relation to enterprise establishment, tax planning and other areas.

KPMG will continue to pay close attention to the development of the pilot program policies and provide knowledge updates including our observations.

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