



China Tax Alert

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Pilot Free Trade Zone Series – Innovative Tax Services in China (Shanghai) Pilot Free Trade Zone

Regulations discussed in this issue:

- *Notice on supporting innovative tax services in China (Shanghai) Pilot Free Trade Zone* (Shui Zong Han [2014] No.298) issued on 25 June 2014

Background

The State Administration of Taxation (“the SAT”) has recently released the *Notice on supporting innovative tax services in China (Shanghai) Pilot Free Trade Zone* (Shui Zong Han [2014] No.298), in which ten tax related services are introduced to China (Shanghai) Pilot Free Trade Zone (“the Pilot FTZ”) as a step to move the administration of taxation online.

The ten online services are: generation of tax registration numbers, self-service tax handling, electronic invoicing, cross-regional tax services for Pilot FTZ, general VAT taxpayer recognition, administration of non-resident taxation, recordal filing, quarterly filing return, tax payment credit evaluation and other innovative services. The SAT aims to reform and enhance the administration of the entire taxation system following the successful implementation of the above reformative measures.

Key measures explained

New Measures	Interpretation
<p>Reform the current taxation management system</p>	<ul style="list-style-type: none"> • Automatic generation of tax registration numbers online without pre-approval. • Replace monthly VAT filing with quarterly VAT filing and refund-upon-levy for certain industries • Delegate approval authority, e.g. online “check-after-filing” for common tax items on the administrative approval list, subsequent supervision and electronic invoicing • General VAT taxpayer status can be recognized online

<p>Facilitate tax processing</p>	<ul style="list-style-type: none"> • Enterprises in the Pilot FTZ could choose location and handle all taxation affairs online via relevant online portals • Indirect taxation online, especially for recognition of invoice, relevant certificates and qualifications as well as invoice purchase • Online administration of non-resident taxation, for those non-resident enterprises who have free trade accounts with trustees such as banks for investment purposes, their basic information will be provided by the trustees, and relevant taxation services will be provided by the tax authorities in charge of the trustees
<p>Strengthen tax risk management</p>	<ul style="list-style-type: none"> • A four-level (A, B, C, D) credit rating system to determine the service and administrative level that enterprises receive • Provide innovative services such as differential policy and risk alerts based on the enterprise's information collected online

KPMG's observations

The new tax services align the PRC taxation system with international practice and show the government's gradual change in terms of the role it plays. More specifically:

- The government reduces its intervention in the market's economic behaviour. For instance, taxpayers were required to register with the tax authorities in the past. The new online service automatically generates tax registration numbers according to the enterprise information provided by relevant administrative departments, doing away with the need of approval and preventing delays at various departments.
- The government steps up its service offered to enterprises. Joint acceptance and information sharing among the Science and Technology Commission, Shanghai Administration for Industry & Commerce and Bureau of Quality and Technical Supervision simplifies procedures for R&D expenses deduction and non-trade payment, and saves taxpayers' time. Handling all taxation affairs online makes enterprises in the Pilot FTZ easier to handle certain tax matters at their location and save time and tax cost.
- The government promotes an honour system. Measures such as online recognition of VAT general taxpayer status and online recordal filing are based on the principle of "recognition first and supervision later".

In addition, some measures will benefit specific industries, reducing operating cost and accelerating capital turnover. For example, using electronic invoice reduces the cost of invoicing for electronic businesses, helping them collect and manage invoice dates accurately for verification and examination later, while the change to quarterly VAT filing / refund-upon-levy allows pilot shipping businesses in Yangshan Bonded Port Area to improve their fund efficiency by reducing filing frequency from twelve to four times a year.

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