



China Tax Weekly Update

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Reference: N/A
Issuance date: N/A
Effective date: N/A

Relevant industries: All
Relevant companies: All
Relevant taxes: VAT/BT

Potential impacts on businesses:

- Need to be prepared for finalisation of VAT reforms

You may click [here](#) to access full content of the circular.

Forum on Value Added Tax (VAT) reforms and rebalancing central-local tax revenue allocations in 2016

On 22 January 2016, Premier Li Keqiang held a discussion forum on the further conduct of the ongoing VAT reforms. Officials of the Ministry of Commerce and key in-charge officials of 11 provinces/cities government, including Beijing, Shanghai, Jiangsu, Zhejiang, etc. participated in the forum.

It was clarified that the VAT reform shall be expanded to all industries in 2016. The scope of input VAT credit for certain tax items shall be expanded. It was also mentioned that the sharing of VAT revenues between central and local government shall be adjusted appropriately after the completion of VAT reform. This is in order to encourage the local government to develop competitive industries according to local conditions.

Reference: N/A
Issuance date: N/A
Effective date: N/A

Relevant industries: All
Relevant companies: Large enterprises
Relevant taxes: All

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced
- Risks of being challenged due to non-compliance issues increased

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Improvement of tax services for large enterprises

Recently, the State Administration of Taxation (SAT) set out the reform measures to improve the quality and efficiency of tax services and administration of large enterprises, which mainly include:

Optimize and customize tax services for large enterprises

- Use by authorities of mobile apps and Wechat to provide advice and engage in business correspondence with enterprises
- Provide regular alerts on common industry issues and significant tax issues
- Seek to establish a reporting mechanism on significant tax issues
- SAT to guide provincial level tax bureaus on providing interpretations on topical and difficult tax issues facing large enterprises
- SAT to regularly collect opinions from large enterprises on the improvement of tax policy and administration systems
- SAT to explore creation of advance ruling system

<p>Optimize and customize tax services for large enterprises (Cont'd)</p>	<ul style="list-style-type: none"> • Establish large enterprise tax risk control indicator system • Enter into Tax Compliance and Cooperation Agreements with large enterprises • SAT and provincial tax bureaus to establish high-level communication mechanism with large enterprises • Improve the coordination meeting mechanism to resolve significant and complicated tax issues in a timely manner
<p>Transform large enterprise tax administration</p>	<ul style="list-style-type: none"> • Differentiated management of large enterprises according to their grading and classification • Distinguish risk levels with regard to risk indicators, interview assessment, tax audit, etc. • Raise the standard of tax administration for large enterprise. For inter-regional and internationally operated large enterprises, the tax risk assessment shall be handled by the SAT or the tax bureaus at the provincial level. Their risk analysis outputs will be shared with the local tax authorities to facilitate tax enforcement

Reference: SAT Announcement [2016] No. 3
Issuance date: 18 January 2016
Effective date: 1 January 2016

Relevant industries: All
Relevant companies: All
Relevant taxes: CIT

Potential impacts on businesses:

- Compliance costs reduced

You may click [here](#) to access full content of the circular.

SAT revises Corporate Income Tax (CIT) Filing Forms

The SAT has revised several CIT annual filing forms. This is to facilitate enterprises to enjoy the CIT preferential policies when performing the annual filing. These include the tax benefits for small and low profits enterprises, the accelerated fixed asset depreciation allowance for certain key industries, and the special tax treatment of technology transfers of non-exclusive licenses lasting 5 years or more. The revised CIT annual filing forms shall apply to the 2015 CIT annual filing and onwards.

Reference: N/A
 Issuance date: N/A
 Effective date: N/A

Relevant industries: All
 Relevant companies: All
 Relevant taxes: Education
 Surcharge, Local Education
 Surcharge, Water
 Conservancy Construction
 Fund

Potential impacts on
 businesses:

- Effective tax burden
 reduced

You may click [here](#) to access
 full content of the circular.

Exemption threshold for governmental funds increased

On 27 January 2016, the Standing Committee of the State Council, chaired by Premier Li Keqiang, decided to increase certain exemption thresholds. The exemption thresholds for the Education Surcharge, Local Education Surcharge and Water Conservancy Construction Fund is increased from RMB 30,000 to RMB 100,000. This means that if the monthly sales or turnover of a taxpayer is less than RMB 100,000 in future, it is exempt from paying the related charges. This exemption policy is intended to be in place over the longer term.

Reference: N/A
 Issuance date: N/A
 Effective date: N/A

Relevant industries: All
 Relevant companies: All
 Relevant taxes: All

Potential impacts on
 businesses:

- Compliance costs
 reduced
- Risks of being challenged
 due to non-compliance
 issues increased

You may click [here](#) to access
 full content of the circular.

SAT Q&A on reform plan for the state and local tax collection and administration system

Since the issuance of the *Plan for Deepening Reform of the State Tax and Local Tax Collection and Administration System* ("the Plan"), the Chinese tax authorities have introduced a series of detailed reform measures. Recently, an SAT official with responsibility for implementation of the Plan clarified certain matters.

The SAT selected several provinces (cities) to run the Plan pilot programs. Liaoning, Shanghai, Jiangsu, Henan and Chongqing are selected for the comprehensive reform pilot. Beijing, Hubei, Guangdong, Sichuan, Shaanxi, Ningxia and Shenzhen are selected for the special reform pilots.

The comprehensive reform pilot includes a number of elements. There are:

- The reform of the overall system and mechanisms for the segregation of collection and administration responsibilities between local and state tax authorities;
- Adjustment to organizational structures, the building of information systems, the reform of large and important business, and other measures.

The comprehensive reform pilot city authorities shall follow the instructions of the SAT to conduct the pilot program. Apart from this, they can also conduct other reforms themselves, especially the reform items for providing services to taxpayers.

For special reform pilot cities:

- Beijing
 - Permit taxpayers to conduct tax matters with whichever tax authority they choose around the city
 - Improve the national telephone service platform ("12366")
 - Direct audit efforts at high risk taxpayers

- Guangdong
 - Build up 'internet' tax bureaus and promote conduct of tax matters online
 - Improve cooperation between banks and tax bureaus to assist the development of small and low profit enterprises
 - Taxpayer administration differentiated by risk grade and class
- Shenzhen
 - Promote paperless tax filing and reduce form filling
 - Deepen participation in international cooperation and move against international anti-avoidance
 - Better support the opening of the economy up to overseas participation

For greater taxpayer convenience, detailed reform measures by the SAT also include: 2D barcode scanning, expanding the bank-tax bureau cooperation, comprehensive consultation platform building, amongst other measures.



Reference: SAT
Announcement [2016] No.4
(Announcement 4)
Issuance date: 18 January
2016
Effective date: 1 January
2017

Relevant industries: All
Relevant companies: All
Relevant taxes: Majority of
taxes

Potential impacts on
businesses:

- Risks of being challenged
due to non-compliance
issues increased

You may click [here](#) to access
full content of the circular.

Implementation of *Multilateral Convention on Mutual Administrative Assistance in Tax Matters*

On 18 January 2016, the SAT issued Announcement 4 to clarify that the *Multilateral Convention on Mutual Assistance in Tax Collection and Administration* ("the Convention") will be applicable to China on 1 February 2016. China shall start to implement the Convention on 1 January 2017. The Convention applies to 16 taxes including CIT, VAT, Business Tax, Consumption Tax, and others.

Announcement 4 also clarifies that assistance in tax collection and administration, rendered by the China tax authorities to foreign tax authorities under the Convention, is limited to information exchange at the current stage. The Convention provides that China reserves the right:

- not to provide assistance in any form to the taxes except for the 16 taxes set out in the Convention
- not to assist other Parties in tax recovery
- not to offer tax revenue preservation measures, etc.

The Convention is not applicable to Hong Kong or Macau at the moment.

The Convention has been published on the SAT website, and you may click [here](#) to access full content of the Convention. You may also click [here](#) to understand the countries which have signed the Convention.

Reference: N/A
Issuance date: N/A
Effective date: 29 December
2016

Relevant industries: All
Relevant companies: All
Relevant taxes: CIT

Potential impacts on
businesses:

- Effective tax burden
reduced
- Risks of being challenged
due to non-compliance
issues increased

You may click [here](#) to access
full content of the circular.

Fourth Protocol to China-HK DTA effective

The Fourth Protocol to the Arrangement between the Mainland China and the Hong Kong Special Administrative Region for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("the Fourth Protocol") was formally signed on 1 April 2015. Hong Kong officially notified mainland China on 4 December 2015 that the required Hong Kong approval procedures had been fulfilled. Mainland China officially notified Hong Kong on 29 December 2015 that the required Mainland approval procedures had been fulfilled. The Fourth Protocol formally became effective on 29 December 2015.

You may click [here](#) to access full content of the Fourth Protocol.

For more information about the Fourth Protocol, you may refer to our [KPMG China Tax Alert \(Issue 5, 2015\)](#).

Reference: N/A
 Issuance date: N/A
 Effective date: N/A

Relevant industries: All
 Relevant companies: All
 Relevant taxes: All

Potential impacts on businesses:

- Compliance costs reduced
- Operational costs reduced

You may click [here](#) to access full content of the circular:

SAT issues 10 measures to support Shanghai Scientific and Technological Innovation Centre

On 21 January 2016, the Shanghai tax bureau together with the Management Committee of the Shanghai Free Trade Zone and the Management Committee of Shanghai Zhangjiang High-tech Development Zone held a news conference. *Several Measures issued by the SAT on Supporting the Building of Shanghai Scientific and Technological Innovation Centre* ("10 Measures") was published on the conference. The 10 Measures mainly include:

- Set-up "12366" Shanghai (International) taxation service centre. This is to provide advice services on tax policy in relation to investment and operation. It will also provide general tax policy consultation services and tax alert services to outbound and inbound investment enterprises
- Pilot on integration of tax collection and administration for domestic and foreign trades. Qualified warehousing logistics enterprises and processing trade enterprises, having their non-bonded goods into the special customs zones, may register as VAT general taxpayer and purchase VAT special invoices accordingly
- Certain software enterprises are entitled to enjoy "refund upon collection" incentives on their software products. Where these are classified, for tax credit purposes, as Class A, then they may convert the VAT monthly filing to a quarterly filing and apply for VAT invoices for 3 months' usage at one time
- Other measures include: direct enjoyment after self declaration of tax incentives within the specific list, foreign talents exempt from declaration for tax-free subsidies, expansion of usage of electronic invoices, etc.

Reference: Hu Ke He [2015] No.27
 Issuance date: 29 December 2015
 Effective date: 1 February 2016

Relevant industries: Venture capital industry
 Relevant companies: Venture capital investment institutions which invested / to be invested in Shanghai scientific and technological innovation enterprises
 Relevant taxes: N/A

Potential impacts on businesses:

- Investment risk reduced

You may click [here](#) to access full content of the circular.

Compensation on investment to scientific and technological innovation enterprises in Shanghai

On 29 December 2015, three Shanghai authorities jointly issued the *Notice on Provisional Measures for the Administration of Risk Compensation for Angel Investment in Shanghai* ("the Provisional Measures").

The Provisional Measures regulate that there will be compensation to investment institutions for their investments made to scientific and technological innovation enterprises in Shanghai. This is where enterprises are at the stage of seed germination or start-up period after 1 January 2015. The compensation will be a certain portion of the difference between the transfer income eventually received and the accumulated investments made to the enterprises.

The applicable scope and conditions, compensation standards, administration organization and application and approval procedures have also been clarified in the Provisional Measures.

The Provisional Measures shall be take effect on 1 February 2016, and be valid for 2 years.



Notice on the Collection of Special Funds for Structural Adjustment of Industrial Enterprises

On 19 January 2016, the Ministry of Finance (MOF) issued Cai Shui [2016] No. 6 to clarify that the special funds for structural adjustment of industrial enterprises shall be collected from 1 January 2016.

The special funds will be collected on a monthly basis according to the grid-connected electric quantity of the fire coal and renewable energy resources generator set (including electric quantity in market), electric quantity generated and used by the power plant of fire coal.

You may click [here](#) to access full content of the circular.

Business Tax Exemption for Housekeeping Services

On 18 January 2016, the MOF and the SAT jointly issued Cai Shui [2016] No. 9 to extend the Business Tax exemption for housekeeping services to 31 December 2018.

You may click [here](#) to access full content of the circular.

Special Inspection on New Energy Vehicles

On 20 January 2016, the four authorities jointly issued the notice to conduct the special inspection on the new energy vehicles which obtained the governmental financial subsidies in 2013 and 2014, and which applied for the subsidies in 2015.

You may click [here](#) to access full content of the circular.

Name list of 2nd Batch of Social Bodies of 2014 Qualified Donations for Public Welfare

On 31 December 2015, the three authorities jointly issued the name list of the second batch of social organizations of 2014 qualified donations for public welfare. Taxpayers may declare to the tax authority for deduction and adjust the 2014 annual CIT filing return if they have made the donations to the qualified organizations set out in the aforesaid list.

You may click [here](#) to access full content of the circular.

The Trial Administration on Arable Land Occupation Tax

On 15 January 2016, SAT released the *Trial Administrative Measures on Arable Land Occupation Tax* ("the Measures"), in which the determination of tax liability, tax declaration and collection, tax reduction and exemption have been clarified. The Measures shall take effect from the date of issuance, i.e., 15 January 2016.

You may click [here](#) to access full content of the circular.

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