

China Tax Weekly Update

ISSUE 15 | April 2016

Reference: Guo Ban Fa [2016] No. 16
 Issuance date: 17 March 2016
 Effective date: N/A

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

Potential impacts on businesses:

- Need to pay close attention to the progress of the legislation and regulation revision work

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

2016 legislation work plan of the State Council

On 17 March 2016, the State Council issued Guo Ban Fa [2016] No. 16, announcing the 2016 legislation work plan of the State Council. The plan includes 31 urgent items required for deepening reform, 34 items to be completed within 2016, 59 preparatory items and 115 items under study. Among these, the finance and tax related items are:

<p>Urgent items required for deepening reform</p>	<ul style="list-style-type: none"> • <i>Tax Collection and Administration Law (Revision)</i> (To be drafted by the State Administration of Taxation (SAT) and the Ministry of Finance (MOF)) • <i>Sino-foreign Equity Joint Ventures Law, Sino-foreign Contractual Joint Ventures Law, Wholly Foreign Owned Enterprises Law, Law on the Protection of Investment by Taiwanese Compatriots (Revision)</i> (To be drafted by the Ministry of Commerce (MOFCOM) and the Taiwan Affairs Office of the State Council) • <i>Administrative Reconsideration Law (Revision)</i> (To be drafted by the Legal Affairs Office of the State Council) • <i>Administrative Regulations on Approval and Filing for Enterprise Investment Projects</i> (To be drafted by the National Development and Reform Commission (NDRC))
<p>Items to be completed within 2016</p>	<ul style="list-style-type: none"> • <i>Customs Inspection Rules</i> (To be drafted by the General Administration of Customs (GAC)) • <i>Environmental Protection Tax Law (Draft)</i> (To be drafted by MOF, SAT and the Ministry of Environmental Protection)
<p>Preparatory items</p>	<ul style="list-style-type: none"> • <i>Tobacco Tax Law</i> (To be drafted by MOF and SAT) • <i>Vessel Tonnage Duties Law</i> (To be drafted by MOF and GAC) • <i>Provisional Regulations on Consumption Tax (Revision)</i> (To be drafted by MOF and SAT) • <i>Administrative Regulations on Foreigners Working in China</i> (To be drafted by the Ministry of Human Resources and Social Security and the State Administration of Foreign Experts Affairs)

<p>Preparatory items (Cont'd)</p>	<ul style="list-style-type: none"> • <i>Administrative Regulations on Foreign Exchange Control (Revision)</i> (To be drafted by the People's Bank of China and the State Administration of Foreign Exchange (SAFE)) • <i>Administrative Regulations on Permanent Residence Services for Foreigners</i> (To be drafted by the Ministry of Public Security)
<p>Items under study</p>	<ul style="list-style-type: none"> • <i>Resource Tax Law</i> (To be drafted by MOF and SAT) • <i>Value Added Tax law</i> (To be drafted by MOF and SAT) • <i>Farmland Occupation Tax Law</i> (To be drafted by MOF and SAT) • <i>Tariff Law</i> (To be drafted by MOF and GAC) • <i>Individual Income Tax Law (Revision)</i> (To be drafted by MOF and SAT) • <i>Regulations on National Security Review for Foreign Investments</i> (To be drafted by NDRC and MOFCOM)



Reference: SAT
Announcement [2016] No. 23
Issuance date: 19 April 2016
Effective date: 1 May 2016

Relevant industries: All
(especially for industries of
construction, real estate,
financial and lifestyle
services)

Relevant companies: All
(especially for enterprises
engaged in construction, real
estate, finance and lifestyle
services)

Relevant taxes: VAT

Potential impacts on
businesses:

- Compliance risks due to regulatory uncertainties reduced

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

SAT clarifies some tax collection and administration issues for the VAT reform

As mentioned in KPMG [China Tax Weekly Update \(Issue 13, April 2016\)](#), the SAT issued 7 detailed interpretation announcements on certain issues of the VAT reform on 7 April 2016 to better implement Cai Shui [2016] No. 36. Subsequently, SAT issued another announcement, Announcement [2016] No. 23 (Announcement 23), on 19 April 2016. Announcement 23 clarifies further certain tax collection and administration issues for the VAT reform and will take effect from 1 May 2016.

- For taxpayers who are newly included in the VAT reform, the deadline for VAT filing in June 2016 will be extended to 27 June 2016 (This is a one-off extension)
- State tax authorities at provincial level may decide to extend the deadline for 2015 Corporate Income Tax annual filing to 30 June 2016 at the latest (This is a one-off extension because of heavy workload of VAT reform)
- Taxpayers who were paying Business Tax (BT) quarterly before the VAT reform shall declare BT for April 2016 with their in-charge local tax authorities before the filing deadline in May 2016. For VAT liabilities of May and June 2016, they shall make the VAT filing with their in-charge state tax authorities before the filing deadline in July 2016
- The scope of taxpayers who are exempt from VAT invoice authentication process is being expanded. To be specific, VAT invoices obtained by general VAT taxpayers with class B tax credit rating are no longer required to be scanned for authentication (Exemptions from VAT invoice authentication were only granted to taxpayers with class A tax credit rating before). This covers invoices which are issued by the seller through the upgraded VAT invoice system. Taxpayers who are newly included in the VAT reform from 1 May 2016 are exempt from the VAT invoice authentication for the period from May to July 2016

In addition, Announcement 23 also clarifies other issues, including: the registration for general VAT taxpayers, the usage of invoices, the issuance of VAT invoices, VAT consolidated filing for financial institutions, etc.

* On the occurrence of the Circular 36 announcement, KPMG immediately issued a series of China Tax Alerts to provide an overview of the high level policies and general impacts across all industries. Focusing on construction, real estate, finance and lifestyle services, at the same time, we also issued specific alerts for each of the three major industries affected by these changes. You may click the following links to read:

- ❑ [China Tax Alert: China's new VAT rates & rules – High level policies and general impacts across all industries \(Issue 9, March 2016\)](#)
- ❑ [China Tax Alert: China's new VAT rates & rules – Financial Services impacts \(Issue 10, March 2016\)](#)
- ❑ [China Tax Alert: China's new VAT rates & rules – Lifestyle Services impacts \(Issue 11, March 2016\)](#)
- ❑ [China Tax Alert: China's new VAT rates & rules - Real Estate & Construction industry impacts \(Issue 12, March 2016\)](#)

Reference: Announcement [2016] No. 47 by MOF and other 10 authorities
 Issuance date: 15 April 2016
 Effective date: 16 April 2016

Relevant industries: Cross-border B2C e-commerce
 Relevant companies: Enterprises engaged in cross-border B2C e-commerce business
 Relevant taxes: Import and Export Customs Duty / Import VAT / Import Consumption Tax

Potential impacts on businesses:

- Existing operating model may need to be reconsidered

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

The second batch of imported products for cross-border B2C e-commerce released

As mentioned in KPMG [China Tax Weekly Update \(Issue 14, April 2016\)](#), to facilitate the implementation of the new policies on cross-border B2C e-commerce, the GAC released another 3 cross-border B2C e-commerce related announcements on 7 April 2016. Among them, the first batch of lists, of which products imported in cross-border B2C e-commerce transactions shall be subject to the new cross-border B2C e-commerce rules, were released.

On 15 April 2016, the MOF and other 10 authorities jointly issued Announcement [2016] No. 47 to release the second batch of lists of imported products which will be subject to the new rules on cross-border B2C e-commerce. The second batch of lists includes 151 commodities with 8-digit tax numbers and shall become effective as of 16 April 2016. For the same products as in the first and the second batch of lists (i.e., where the 8-digit tax numbers are same), notes in the second batch of these products shall prevail.

In addition, on 6 April 2016, Zhejiang Entry-Exit Inspection and Quarantine Bureau (C.I.Q) issued a [Detail Administrative Measures in China \(Hangzhou\) Cross-border E-commerce Pilot Zone on Registration of Overseas Manufacturing Enterprises of Imported Foods in Online Shopping Bonded Mode \(Public Draft\)](#) on its official website. The C.I.Q will require registrations for overseas manufacturing enterprises of foods in online shopping bonded mode of cross-border e-commerce importation. The public draft will take effect from the date of promulgation till 30 September 2021 and a transition period is set till 1 October 2016.

* With regard to the potential impact of aforesaid regulations to cross-border B2C e-commerce, you may click to access the following KPMG publications:

- ❑ [China Tax Alert: The Chinese Government Introduced New Policies to Regulate Cross-Border E-Commerce Retail Import Business and the Imported Articles \(Issue 15, April 2016\)](#)
- ❑ [China Tax Alert: China's New Import Tax Policies for Cross-border E-commerce worth the attention of the whole industry \(Issue 14, March 2016\)](#)

Reference: GAC Announcement [2016] No. 28
 Issuance date: 15 April 2016
 Effective date: 16 May 2016

Relevant industries: Import and export industries
 Relevant companies: Companies engaged in import and export business
 Relevant taxes: Import and Export Customs Duty / Import VAT / Import Consumption Tax

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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

GAC revises the custom declaration form and record filing list for inbound and outbound goods

As mentioned in KPMG [China Tax Weekly Update \(Issue 12, April 2016\)](#), on 24 March 2016, GAC issued GAC Announcement [2016] No. 20 (Announcement 20) and made amendments to old version of the *Filling Standards of the Import and Export Customs Declaration Form*. As supplementary to Announcement 20, GAC Announcement [2016] No. 28 (Announcement 28) was released on 15 April 2016. Announcement 28 revises the import and export customs declaration form and the record filing list for inbound and outbound goods in accordance with the revisions to the filling standards. The revised customs declaration form and the record filing list will be effective from 16 May 2016.

The revised customs declaration form and the record filing list delete or revise some of the outdated items and add four special items, including Country (region) of trade, confirmation of special relationship, confirmation of price impact and confirmation of royalty payments.

* With regard to the potential impacts of Announcement 20, you may click to access KPMG [China Tax Alert: China Customs Revises the Standards for Filling in Declaration Forms \(Issue 13, March 2016\)](#) to understand more.

Reference: Guo Fa [2016]
No. 23
Issuance date: 12 April 2016
Effective date: N/A

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

Potential impacts on
businesses:

- Effective tax burden may reduced
- Operational costs reduced

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

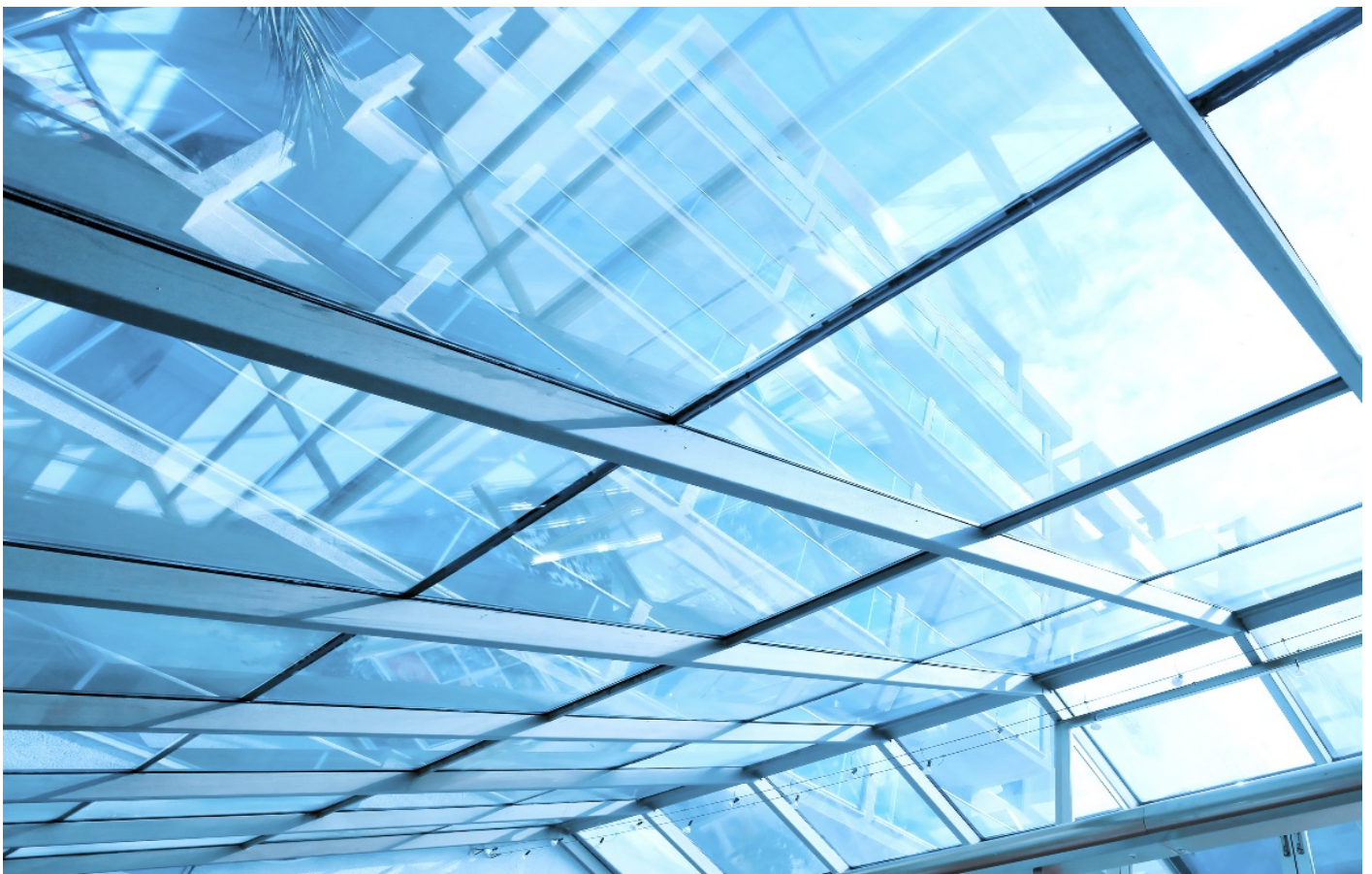
The State Council releases detailed plan on accelerating Shanghai's transformation into a world-class technical innovation center

As mentioned in KPMG [China Tax Weekly Update \(Issue 12, April 2016\)](#), on 30 March 2016, the State Council has decided to push forward the establishment of a comprehensive national scientific center in Shanghai within 3 years. On 12 April 2016, the State Council issued Guo Fa [2016] No. 32 to publish the *Plan on Accelerating Shanghai's Transformation into a World-class Technical Innovation Center* ("the Plan").

The main tasks of the reform include building a comprehensive national science center in Shanghai Zhangjiang, building a platform for research and development (R&D) and transformation of key common technology. It also includes implementing major strategic projects and basic engineering which lead the development of the industry, and promoting the construction of Zhangjiang National Independent Innovation Demonstration Zone, etc. In support of these main tasks, the Plan issues a series of measures, which involves the following finance and tax related measures:

<p>Harness spillover effects from foreign R&D institutions</p>	<ul style="list-style-type: none"> • Attract foreign R&D institutions to cluster together. Encourage them transforming and upgrading into global research center and open innovation platform • Encourage foreign R&D institutions to jointly build research centers and talent training base. Encourage foreign R&D institutions to conduct core technology research with universities, research institutions and enterprises in Shanghai • Encourage foreign R&D institutions to participate in the technological projects of governments. Strengthen the local transformation mechanism of the technological results • Simplify the procedures for import and export of R&D equipment and samples and entry and exit of R&D and management personnel. Optimize the foreign exchange/bank handling procedures for non-trade payments
<p>Research and explore tax incentives to encourage innovation and entrepreneurship</p>	<ul style="list-style-type: none"> • Research and explore related tax policies to support investment in innovative activities that are at the stage of seed germination or start-up period, including angel investment (MOF and SAT) • Implement the newly revised R&D expenses super deduction policies. Actively research and explore measures to facilitate R&D activities and the transformation of technology achievements (MOF, Ministry of Science and Technology (MST) and SAT)
<p>Implement and explore policies on the recognition of high and new technology enterprises (HNTEs)</p>	<ul style="list-style-type: none"> • Implement the newly revised Administrative Measures on the Recognition of HNTEs, and actively explore measures to facilitate the development of high and new technology industries (MST, MOF and SAT)

<p>Improve the equity reward scheme</p>	<ul style="list-style-type: none">• Implement deferred tax pilot policy for equity rewards. HNTEs and small and medium sized enterprises are to be encouraged to give equity rewards to staff in relation to the development of practical applications for new scientific and technological advances. IIT liabilities for staff from individual equity rewards, could be deferred until a dividend is received or shares are transferred. The authorities should also improve the related administrative measures (MOF, SAT and MST)
<p>Simplify the management of foreign investment</p>	<ul style="list-style-type: none">• Support the innovative development of foreign venture capital and equity investment institutions. Actively explore new administrative models for project management of foreign venture capital and equity investment institutions (National Development and Reform Commission and MOFCOM)



Reference: SAT
Announcement [2016] No. 21
Issuance date: 5 April 2016
Effective date: 16 March
2016

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

Potential impacts on
businesses:

- Effective tax burden
reduced

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

Protocol to China-Indonesia DTA comes into effect

On 5 April 2016, SAT issued Announcement [2016] No. 21 (Announcement 21), notifying that *the Protocol to the Arrangement between the People's Republic of China and the Government of the Republic of Indonesia for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income ("the Protocol")* signed in Beijing on 26 March 2015 have formally become effective on 16 March 2016. Announcement 21 mentions that all required approval procedures of Mainland China and Indonesia had been fulfilled. The Protocol shall apply to income derived after 1 January 2017.

The Protocol revised Article 8 (Shipping and Air Transport) of the Arrangement, clarifying that a resident of a Contracting State engaged in the operation of aircraft in international traffic at the other Contracting State shall be exempt from Value Added Tax (VAT) or similar taxes in the other Contracting State.

* SAT has published the text of *the Protocol* on its website. You may click [here](#) to access full content of *the Protocol*.

Reference: Jing Di Shui Fa
[2016] No. 72
Issuance date: 1 April 2016
Effective date: 1 April 2016

Relevant industries: The non-
capital function industries in
Beijing
Relevant companies:
Enterprises fall into the non-
capital function industries in
Beijing
Relevant taxes: Majority of
taxes

Potential impacts on
businesses:

- Compliance risks due to
regulatory uncertainties
reduced
- Effective tax burden
reduced

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

Beijing tax authorities issue tax support policies to divert the functions not related to Beijing being the capital of China (Non-capital functions of Beijing)

As mentioned in KPMG [China Tax Weekly Update \(Issue 3, January 2016\)](#), SAT issued Shui Zong Fa [2015] No. 161, requiring tax authorities in Beijing, Tianjin and Hebei to simplify procedures for inter-province (city) taxpayer relocations. This aims to boost the coordinated development of Beijing, Tianjin and Hebei and alleviate taxpayer burdens by making it more convenient for enterprises to relocate their operations.

On 1 April 2016, Beijing local tax bureau and Beijing state tax bureau jointly issued Jing Di Shui Fa [2016] No. 72 (Circular 72), clarifying the tax support policies in the process of implementing synergetic development of Beijing, Tianjin and Hebei and diverting the non-capital functions of Beijing. In detail, Circular 72 summarizes the tax support policies for those enterprises that transfer, sell or buy low-end market property rights, as well as those closed down enterprises and moved out enterprises requested by municipal and regional government. Policy contents, handling procedures and submitted materials are also cleared in the Circular, which shall become effective as of the date of issuance.

