

# China Tax Weekly Update

ISSUE 27 | July 2016

Reference: SAT  
Announcement [2016] No. 42  
Issuance date: 29 June 2016  
Effective date: 29 June 2016

Relevant industries: All  
Relevant companies:  
Enterprises with related  
party transaction  
Relevant taxes: CIT

Potential impacts on  
businesses:

- Risks of being challenged due to cross-border tax anti-avoidance arrangements increased

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

## SAT enhances TP reporting and documentation

On 29 June 2016, the SAT issued Announcement [2016] No. 42 ("Announcement 42") to further enhance the reporting of related party transactions and the administration of contemporaneous documentation. This replaces the requirements under the existing Guo Shui Fa [2009] No. 2 ("Circular 2") and Guo Shui Fa [2008] No. 114 ("Circular 114"). Announcement 42 clarifies the related party relationships covered by TP provisions and expands the range of related party transactions caught in the scope of TP rules. The Announcement rolls out to China the BEPS Action 13 TP documentation structure, consisting of the Local File and the Main File, but with an additional Chinese 'Special Documentation'. It also introduces the BEPS country-by-country (CBC) report as an element of the annual related party transaction reporting, the latter being expanded from 9 forms, under the current SAT Circular 2 [2009] to 22 forms under the new Announcement.

### CBC Report

- The CBC report discloses the allocation of world-wide income, taxes paid and location of economic activity across all entities within an multinational enterprise (MNE) group. The Chinese provisions on the CBC report, in terms of its content, filing and exchange requirements are in line with the China's global commitments through BEPS.
- There are two circumstances in which the CBC Report needs to be prepared and submitted by Chinese taxpayers:
  - ❖ The Chinese taxpayer is the ultimate holding company of a MNE and the annual consolidated revenue of the group in the previous fiscal year exceeds CNY 5.5 billion;
  - ❖ The Chinese company has been designated by the group to submit the CBC Report.
- The Chinese tax authorities can obtain the CBC reports prepared by MNE holding companies overseas, where relevant to China, through exchange of information. In cases where this would not be effective, the MNE Chinese subsidiary can be directly requested to prepare supply a CBC report for the MNE group.

### TP Files

- Master File outlines the global business activity of an MNE group, including an organisational chart, description of an MNE's business, MNE's intangibles, MNE's intercompany financial activities and MNE's financial and tax positions.

## TP files

Where a China company has cross-border related party transactions and its MNE parent prepares a Master File (which will be very common for even relatively medium sized EU companies) then the Master File will need to be translated and supplied to the Chinese tax authorities (the rules also provide that a company with related party transactions exceeding RMB 1 billion will need to prepare a Master File but, given the first rule, this threshold is of little relevance).

- The Local File discloses detailed information on related party transactions entered into by the China entity. This includes overview of the local entity, related party relationships, related party transactions, comparability analysis, and selection and application of transfer pricing methods. Differentiated thresholds are introduced for different types of related party activity for the Local File as follows:
  - ❖ Transfers of tangible assets exceed RMB 200 million (for processing/toll manufacturing, the customs declared value of imports and exports for the year should be included);
  - ❖ Transfers of financial assets exceed RMB 100 million;
  - ❖ Transfers in ownership of intangible assets exceed RMB 100 million;
  - ❖ All other transactions, including services, interest on financing transactions etc. exceed RMB 40 million.
- Special Documentation includes documentation for cost sharing arrangements (“CSAs”) and documentation for thinly capitalised companies.
  - ❖ Entities that engage in CSAs shall prepare Special Documentation.
  - ❖ Where the related-party debt-to-equity ratio exceeds the standards and need to demonstrate that all types of related party transactions are arm’s length, the entities shall prepare the documentation for thinly capitalised companies.

Transactions covered under an APA need not be included in the Local File and Special Documentation, and need not be included in determining whether a company meets the threshold to prepare the Local File.

Companies which do not transact with overseas related parties are exempt from preparing contemporaneous documentation.

The Announcement requirements apply to the 2016 fiscal year and subsequent, with the Main File, Local File, Special Documentation and related party transaction filings under the new guidance to be made in mid-2017. Exchange of CBC reports with other countries should commence from 2018.

The timing of the release of the remainder of China’s updated transfer pricing regulations is uncertain at this stage. Announcement 42 should be considered the first of a series of regulations to localise the OECD/G20 BEPS Project recommendations for China.

\* With regard to the detailed information and the tax impact of Announcement 42, you may click the following link to access the relevant analysis by KPMG:

- ❑ [China Tax Alert: SAT issues Announcement on the Enhancement of the Reporting of Related Party Transactions and Administration of Contemporaneous Documentation \(Issue 23, July 2016\)](#)

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

Relevant industries: All  
 Relevant companies:  
 Multinational enterprises  
 Relevant taxes: All

Potential impacts on  
 businesses:

- Risks of being challenged due to cross-border tax anti-avoidance arrangements increased

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

## OECD announces further BEPS implementation steps

The official OECD website notes that the OECD has released a discussion draft dealing with the design and operation of the group ratio rule under Action 4 (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments) of the BEPS Action Plan. The OECD has also developed a standardised IT-format for the exchange of tax rulings (ETR) between jurisdictions – the ETR XML Schema – under BEPS Action 5 (Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance).

- ❑ Discussion Draft on Group Ratio Rule under BEPS Action 4 (Limiting Base Erosion Involving Interest Deductions and Other Financial Payments)
  - Interested parties are invited to provide comments on a [discussion draft](#) which deals with elements of the design and operation of the group ratio rule under Action 4 (Interest deductions and other financial payments) of the BEPS Action Plan. Comments should be submitted by 16 August 2016 at the latest (no extension will be granted).
- ❑ BEPS Action 5 (Countering Harmful Tax Practices More Effectively, Taking into Account Transparency and Substance) exchange of Tax Rulings XML Schema: User Guide for Tax Administrations. China's involvement in the tax rulings spontaneous exchange system has not yet been clarified by the SAT.
  - As a key outcome of the work on BEPS Action 5 (Harmful Tax Practices), a framework covering all rulings that could give rise to BEPS concerns in the absence of compulsory spontaneous exchange has been agreed. The framework covers six categories of rulings:
    - ❖ rulings related to preferential regimes
    - ❖ cross border unilateral advance pricing arrangements (APAs) or other unilateral transfer pricing rulings
    - ❖ rulings giving a downward adjustment to profits
    - ❖ permanent establishment (PE) rulings
    - ❖ conduit rulings
    - ❖ any other type of ruling where the FHTP (Forum on Harmful Tax Practices) agrees in the future that the absence of exchange would give rise to BEPS concerns
  - The [ETR XML Schema](#) provides the common IT-format for implementing the exchange of tax rulings between Competent Authorities, as foreseen by Action 5. The related ETR XML Schema User Guide further explains the information required to be included in each data element to be reported. It also contains guidance on how to make corrections of data element within a file.

\* On 5 October 2015 the OECD publicly released its '2015 Deliverables' under the Base Erosion and Profit Shifting (BEPS) initiative, you may click the following link to read the detailed analysis by KPMG:

- ❑ [China Tax Alert: OECD 2015 BEPS Deliverables issued and China's response \(Issue 28, October 2015\)](#)

\*\* As the OECD noted in its recent publication, 'Addressing the tax challenges of the digital economy', "the digital economy is increasingly becoming the economy itself." The rise in the number of digital economy businesses and their operation cross-border has led to many new and complex tax issues. You may click the following link to read the detailed analysis by KPMG :

- ❑ [China tax in the digital age: China's digital economy becomes the economy itself \(Issue 1, July 2016\)](#)
- ❑ [VAT and the digital economy in China \(March 2016\)](#)

Reference: Fa Gai Cai Jin [2016] No.1467  
 Issuance date: 8 July 2016  
 Effective date: 8 July 2016

Relevant industries: All  
 Relevant companies: Enterprises with A-Class tax credit rating  
 Relevant taxes: N/A

Potential impacts on businesses:  
 • operational costs reduced

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

## Incentives for taxpayers with class-A tax credit rating

On 8 July 2016, 29 Chinese regulatory authorities, including the National Development and Reform Commission (NDRC), SAT, People’s Bank of China (PBOC) etc., jointly signed a cooperation memorandum to grant more incentives to taxpayers with class-A tax credit rating. This includes 41 incentive measures in 18 areas such as project approval and management, tax services, allocation of financial funds, imports and exports etc. Some incentive measures are as follows:

items	Incentive measures	Body
Tax services	<ul style="list-style-type: none"> <li>General VAT taxpayers may obtain, from the tax authorities, VAT invoices sufficient for three months of operations, each time they obtain VAT invoices from the tax authorities. Where a taxpayer ongoing requirement for VAT invoices diverges from the level originally agreed with the tax authorities, the taxpayer can apply for an adjustment to its monthly quota, which will be speedily dealt with by the tax authorities.  (In China, taxpayers who provide special VAT invoices to their customers to enable the latter to claim VAT input credits, must obtain these in monthly blocks from the tax authorities. The amount obtainable is based on a notified level of sales/service income. Where VAT invoices run out then these must be obtained anew from the tax authorities, causing hassle for the taxpayer, and its customers. Adjusting notified monthly VAT invoice quotas is not always easy. Hence it is attractive of the enhanced treatment for taxpayers with class-A credit rating.)</li> <li>Ordinary invoices shall be collected in accordance with the needs.  (Similar to special VAT invoices, Chinese taxpayers previously has a monthly ordinary invoice quota which is now cancelled for taxpayers with class-A credit rating.)</li> <li>A taxpayer graded as class-A taxpayer for three consecutive years, shall be granted green lane access by the tax authorities, or assisted by designated personnel in handling tax-related matters.  (A green lane is a special window set up in the government service centre which will shorten the taxpayers’ waiting time.)</li> <li>Export enterprise graded as class-A taxpayer may enjoy priority handling for tax refunds (exemption).</li> </ul>	SAT

items	Incentive measures	Authority
<b>Tax services (cont'd)</b>	<ul style="list-style-type: none"> <li>VAT invoices obtained by general VAT taxpayers with class A tax credit rating are no longer required to be scanned for authentication.</li> </ul> <p>(A VAT general taxpayer in China previously needs to go through the authentication process for any VAT invoices received before they can claim for input tax credit on such invoices. The authentication scanning process now has been cancelled for taxpayers with class-A credit rating which simplifying the approach for claiming input tax credit.)</p>	SAT
<b>Project approval</b>	<ul style="list-style-type: none"> <li>Build green lane for administrative approval. Under the situation that the application materials are incomplete (excluding those materials required by laws and regulations), the application may be processed first upon receipt of written commitments of providing the missing materials within the time limit by administrative counterparts.</li> </ul> <p>(NDRC is the China state planning commission. Many industrial, construction and engineering projects carried on in China need NDRC approval before they can commence.)</p>	NDRC
<b>Business services</b>	<ul style="list-style-type: none"> <li>Shorten the time for processing administrative approval of business affairs which are dealt with by the Ministry of Commerce (MOFCOM).</li> </ul> <p>(MOFCOM is generally responsible for the approval of establishment, alteration, merger &amp; acquisition, etc. of foreign invested enterprises.)</p>	MOFCOM
<b>Facilitation on imports and exports</b>	<ul style="list-style-type: none"> <li>A series of facilitations shall apply to taxpayers graded as class-A, including lower inspection rate, priority processing of Customs clearance, for imports and exports etc.</li> </ul>	General Administration of Customs
<b>Forex Management</b>	<ul style="list-style-type: none"> <li>Reform on trade and investment facilitation are first piloted in enterprises graded as class-A as well as having good compliance on forex</li> </ul>	State Administration of Foreign Exchange (SAFE)
<b>Facilitate financing</b>	<ul style="list-style-type: none"> <li>Tax credit rating is an essential condition for financing by bank loan granting</li> <li>Tax credit rating is regarded as good credit record and it shall be recorded in financial credit information database</li> </ul>	PBOC, China Banking Regulatory Commission

\* Pursuant to SAT Announcement [2014] No. 40, tax credit ratings are divided into A, B, C and D. Grade A shall have an annual evaluation benchmark score of 90 and above. Tax authorities shall determine the taxpayer credit evaluation findings for the preceding year in April every year, and implement dynamic adjustment for tax credit rating of taxpayers. A comparison to the lists of taxpayers with class-A tax credit rating and dishonest enterprises in other areas (such as the MOFCOM, SAFE, PBOC, etc.) shall be made in national credit information sharing platform and the incentives will be granted based on the credit conditions of that enterprise.

Reference: Gong Shang Qi  
Zhu Zi [2016] No.117 /  
No.117 / Hu Fu Fa [2016]  
No.41

Issuance date: 24 June 2016  
/ 1 July 2016  
Effective date: 24 June 2016  
/ 1 July 2016

Relevant industries: All  
Relevant companies: All  
Relevant taxes: N/A

Potential impacts on  
businesses:

- Compliance costs reduced

You may click the circular  
titles to access full content  
of the circulars.

## Further rules to promote business system reform

As mentioned in KPMG [China Tax Weekly Update \(Issue 8, March 2016\)](#), the State Administration of Taxation (SAT) have issued certain rules to implement the State Council's decision on cancellation of 152 administrative approval items that the central government had delegated to local governments. Recently, the State Administration for Industry and Commerce (SAIC) and Shanghai government also made the adjustments to the administrative approval items under their jurisdiction.

### □ [SAIC adjusts the catalogue of business items subject to pre-approval for business registration \(Gong Shang Qi Zhu Zi \[2016\] No. 117, "Circular 117"\)](#)

SAIC issued Circular 117 on 24 June 2016. It made revisions on business items subject to pre-approval for business registration and de-registration which were stated in its previous Circular (Gong Shang Qi Zhu Zi [2015] No. 65).

- Existing Chinese regulations provide that, before a company is granted a business registration to carry out certain activities, it needs to obtain SAIC pre-approval. Circular 117 reduces the number of such cases from 5 to 3. The Circular also reduces the number of instances in which pre-approval will be needed to alter a business registration, or cancel it. The instances are reduced from 34 to 30.
- SAIC initiated the "Licensing before certification" reform in 2014. It means that if the business items do not fall within "Catalogue of business items subject to pre-approval for business registration", enterprises may obtain the business licenses from the administration for industry and commerce prior to getting the business permits or certificates issued by other relevant authorities. The business activities, however, are only allowed to be carried out after obtaining the relevant permits or certificates. Enterprises shall also publicize the relevant information of the permits or certificates on "Enterprise creditworthiness information announcement system" within 20 working days from the date of obtaining the relevant permits or certificates.

### □ [Shanghai Municipal People's Government cancels and adjusts certain administrative approvals items \(Hu Fu Fa \[2016\] No.41\)](#)

- Shanghai government cleared up the administrative approval items and published the results on 1 July 2016. 114 items are abolished while 62 are adjusted, which take effect from the date of promulgation. For example, the abolished items include:
  - (i). Tax authority approval of CIT incentives for enterprise engaging in public infrastructure construction projects which are selectively supported by the State;
  - (ii). Tax authority approval of CIT incentives for software and integrated circuit enterprises;
  - (iii). Finance, tax and civil administration approval of public welfare donation qualified for pre-tax deduction etc.

Reference: SAT  
Announcement [2016] No. 44  
/ Jing Zheng Fa [2016] No. 19  
/ Ban Shui Zong [2016] No.  
132  
Issuance date: 5 July 2016 to  
11 July 2016  
Effective date: 1 May 2016

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

Potential impacts on  
businesses:

- Compliance risks due to regulatory uncertainties reduced

You may click the circular titles to access full content of the circulars.

## Further VAT implementation rules

In order to help better implement the new VAT rules Measures for Implementation of the Pilot Program of VAT Reform (Cai Shui [2016] No. 36, "Circular 36"), SAT, on 6 July 2016, issued the announcement to carry out the pilot program of self-issuing of the special VAT invoices by the small scale VAT taxpayers in the accommodation industry in certain areas.

- ❑ [SAT to carry out the pilot program of self-issuing of the special VAT invoices by the small scale VAT taxpayers in the accommodation industry in certain areas \(SAT Announcement \[2016\] No. 44, "Announcement 44"\)](#)

- Pursuant to Announcement 44, where the small scale VAT taxpayers in accommodation industry and their monthly income derived from accommodation services, sales of goods and other activities subject to VAT exceeds RMB 30,000 (or quarterly income exceeds RMB 90,000), they may issue the special VAT invoices through the new VAT invoice system by themselves. In-charge state tax authorities will no longer to issue the invoice on behalf of them. This will be piloted in 91 cities.

(You may refer to Page 4 for some further explanations on VAT invoices.)

Meanwhile, local tax bureaus also issued several announcements and interpretation to further clarify implementation issues for the VAT reform, mainly including the followings:

- ❑ [Beijing Municipal Government issues transitional scheme for division of VAT revenue between the City and the Districts after the VAT reform \(Jing Zheng Fa \[2016\] No. 19\)](#)
- ❑ [Interpretation on Shanghai State Tax Bureau's announcement on cross-border activities subject to VAT exemption under VAT reform](#)
- ❑ [Ministry of Water Resources clarifies the adjustment method of VAT pricing basis under VAT reform \(Ban Shui Zong \[2016\] No.132\)](#)

The State Council, the MOF and the SAT have recently issued many circulars for the implementation of Circular 36. You may click *KPMG China Tax Weekly Update* [Issue 13](#), [Issue 14](#), [Issue 15](#), [Issue 16](#), [Issue 17](#), [Issue 18](#), [Issue 19](#), [Issue 20](#), [Issue 21](#), [Issue 22](#), [Issue 23](#), [Issue 24](#), [Issue 25](#) and [Issue 26](#) to understand the details.

\* On the occurrence of 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 \(Issue 12, March 2016\)](#)

\*\* In addition, the MOF and SAT issued Circular 68 to further clarify VAT treatment of services in regard of reinsurance arrangements, lease of immovable properties and non-academic education. Also, Circular 70 was issued to further clarify the VAT reform policies on financial industry. KPMG has issued two China Tax Alerts to detail the tax impact to reinsurance, insurance and financial services, you may click the following link to read:

- ❑ [China Tax Alert: New Circular clarifies China's VAT treatment of reinsurance arrangements \(Issue 17, June 2016\)](#)
- ❑ [China Tax Alert: New Circular expands upon China's VAT exemptions for financial services industry \(Issue 20, July 2016\)](#)

Reference: Shui Zong Han [2016] No. 309  
Issuance date: 7 July 2016  
Effective date: 7 July 2016

Relevant industries: All  
Relevant companies: All  
Relevant taxes: Land Appreciation Tax

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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

## SAT revises Land Appreciation Tax (LAT) filing forms

On 7 July 2016, the SAT issued Shui Zong Han [2016] No. 309 to make revision on filing forms of LAT. The main revisions are as follows:

- Introduction of "Registration form for project subject to LAT". Taxpayers who engage in development of real estate shall submit this form to their in-charge tax authorities after obtaining the land use right and the permission for conducting the real estate development project from the Housing and Urban-rural Development Commission. They shall complete the form where applicable for transfer (pre-sale) of real estate each time they make a transfer (pre-sale) of the real estate.
- Make revisions to the existing LAT filing forms, i.e., adding "Fees collected under entrustment", adjust income item name by adding "Treated as sales revenue" etc.

Reference: SAT Announcement [2016] No. 45  
Issuance date: 7 July 2016  
Effective date: 7 July 2016

Relevant industries: Insurance  
Relevant companies: Insurance company  
Relevant taxes: IIT / VAT

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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

## Insurance agency tax collection clarified

On 7 July 2016, SAT issued SAT Announcement [2016] No.45 to clarify the tax collection matters for individual insurance agent for providing insurance company with insurance agency services. It will take effect from 7 July.

- Tax authorities may entrust the insurance enterprises to collect the VAT, urban maintenance and construction tax, education surcharge and local education surcharges payable by the individual insurance agents for providing the insurance enterprises with insurance agency services.
- Insurance company shall withhold the Individual Income Tax (IIT) payable by the individual insurance agents for providing the insurance enterprises with insurance agency services.



Reference: Shui Zong Fa [2016] No. 106  
 Issuance date: 6 July 2016  
 Effective date: 6 July 2016

Relevant industries: All  
 Relevant companies: Enterprises doing cross-region business  
 Relevant taxes: All

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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

## Tax administration for taxpayers operating across tax districts

On 6 July 2016, the SAT issued Shui Zong Fa [2016] No.106 ("Circular 106"), setting out opinions to improve the administration on Certificate of Administration of Tax Collection for Cross-region Business Activities ("Certificate").

(Based on the VAT regulations and the Tax Collection and Administration Law, a taxpayer doing business across jurisdiction to other counties (cities) shall apply to the tax authority in charge at its location for issuance of a Certificate.)

### New administrative system for the Certificate

- Taxpayers doing business across jurisdiction of tax authority at provincial level, shall be subject to the Certificate.
- Taxpayer doing business across county (city) within jurisdiction of tax authority at provincial level, the provincial tax authority shall determine to issue the Certificate or not.
- The valid period of the Certificate is not more than 180 days in general. Where a construction contract period over 180 days, the valid period of the Certificate shall follow the construction contract.

Circular 106 also clarifies the issuance, inspection and registration, verification and cancellation of the Certificate.

Reference: N/A  
 Issuance date: 8 July 2016  
 Effective date: 8 August 2016

Relevant industries: All  
 Relevant companies: All enterprises in Beijing  
 Relevant taxes: All

Potential impacts on businesses:

- Operational costs reduced

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

## Facilitation of tax handling for Beijing taxpayers

As mentioned in KPMG [China Tax Weekly Update \(Issue 4, February 2016\)](#), in order to push forward the *Plan for Deepening Reform of the State Tax and Local Tax Collection and Administration System*, the SAT has selected Beijing to carry out a particular special reform pilot. The Beijing tax authorities are to permit taxpayers to conduct tax matters through other channels rather than directly handling with their in-charge tax authorities.

The Beijing State Tax Bureau (BSTB) issued the Announcement to officially launch this pilot in Beijing, starting from 8 August 2016.

- Taxpayers may, through the online taxation service hall of BSTB and self-service taxation terminals, conduct tax matters. The tax matters are not subject to the restriction on the geographic location of the in-charge tax authorities. Under this pilot, taxpayer's in-charge authority, tax budget level and attribution of tax revenue shall remain unchanged.
- 375 tax matters in 7 categories are covered, including: tax registration, tax accreditation, invoice, tax filing and payment, tax incentives, certification and tax consultation etc.
- Tax matters in relation to tax-related violation subject to administrative penalty shall still be handled by the in-charge state tax authority where the enterprise is located.

Reference: BSTB and BLTB Announcement [2016] No. 22  
 Issuance date: 6 July 2016  
 Effective date: 1 September 2016

Relevant industries: N/A  
 Relevant companies: N/A  
 Relevant taxes: N/A

Potential impacts on businesses:

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

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

## Limitation of discretion for Beijing tax authorities to levy penalties

On 6 July 2016, Beijing State Tax Bureau (BSTB) and Beijing Local Tax Bureau (BLTB) jointly issued Announcement [2016] No. 22 ("Announcement 22") to standardize tax authority's discretion in tax administrative penalty, by setting out *Standards for Discretion in Tax Administrative Penalty* ("Standards for Discretion"). Announcement 22 shall take effect from 1 September 2016.

According to Announcement 22, with regard to the determination on imposition of administrative penalty or not, tax authority shall be made based on facts, nature, seriousness and dangerous consequences of the violations. It also should be made in the range of such penalty as prescribed in the Standards for Discretion. Tax authority must give a reason and go through the internal review for cases that cannot be subject to the Standards. This aims to avoid the abuse of discretion.

In addition, Announcement 22 also regulated that In case that any violation of the tax-related laws and/or administrative regulations that should be given administrative sanctions is not identified within 5 years, no administrative sanctions shall be given.

Reference: Cai Ban Kuai [2016] No. 28  
 Issuance date: 4 July 2016  
 Effective date: N/A

Relevant industries: All  
 Relevant companies: Enterprises has been declared bankrupt by the court  
 Relevant taxes: N/A

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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

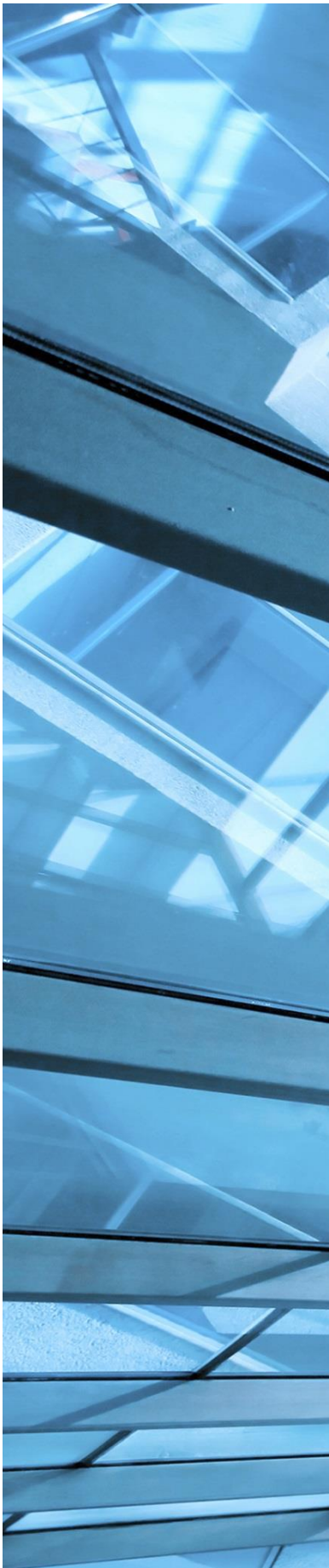
## MOF plans to regulate the accounting treatment of bankruptcy and liquidation

On 4 July 2016, the MOF invited the relevant authorities to provide the comments to the *Draft Provision on the Accounting Treatment of Enterprises Bankruptcy and Liquidation* ("the Draft").

Compared with the previous provision on the accounting treatment of bankruptcy for State-owned enterprises, the Draft made the following key changes:

- Expand the enterprises covered to all legal entities established under Chinese law. (Only state owned enterprises applied in the previous provision. It now applies to foreign invested enterprises, private owned enterprises as well as state owned enterprises.)
- Timeframe for liquidation accounting to apply, i.e., apply to enterprises' accounting and reporting occurred in the period from liquidation declaration to ruling of the bankruptcy by the court.

In addition, the Draft also clarifies the accounting recognition and measurement standards, and details the required presentation of financial statements and information disclosure etc. for bankruptcy and liquidation period.



## Exemption of vehicle purchase tax on non-transport vehicles with fixed equipment clarified

On 30 June 2016, the SAT issued Announcement [2016] No. 43 (Announcement 43) to clarify that certain issue in relation to exemption of vehicle purchase tax on non-transport vehicles with fixed equipment (such as fire engines, excavating machinery, etc.). This includes scope of vehicles subject to exemption, tax-free atlas etc. Announcement 43 shall take effect from 1 August 2016.

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

## Beijing clarifies collection of Handicapped Indemnification Fee (HIF) for employment of disable persons

On 8 July 2016, Beijing Local Tax Bureau issued BLTB Announcement [2016] No. 1 to clarify the enterprises subject to HIF for employment of disable persons, place and time for filing and payment, collection standards as well as other issues.

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

## Guangdong tax authorities seek transparency on identity of tax agents

Guangdong State Tax Bureau issued an announcement on 8 July 2016. It determines that the tax administration under real name shall be launched in Guangdong state tax bureaus (excluding Shenzhen) starting from 8 August 2016. Tax administration under real name means that the tax authorities shall provide tax services upon receipt and verification of ID information of tax handlers of enterprises. It also clarifies the scope of tax handler, information requirements and collection methods etc.

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

