

China Business Advisory

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RMB cross-border trade settlement to start in five cities in China

It was reported that China will start a pilot Reminbi (RMB, official currency of China) cross-border trade settlement program, which was one of the decisions made at the State Council meeting held on 8th April. The trial program will be implemented in five cities. They are Shanghai, Shenzhen, Guangzhou, Zhuhai and Dongguan. The latter four are all in Guangdong province.

This is considered an important step towards the globalization of RMB and a powerful means to stimulate and grow the economy. Importers and exporters in these cities will likely benefit from the lower currency exchange risk resulting from this program. Hong Kong's position as one of the world finance centers may be enhanced if it could play the role of the settlement centre for RMB outside of China before the currency becomes freely exchangeable.

However, details and timeline for implementation are still unavailable. Sino-Bridge will follow this up and inform you of the development in these regards.

Ceilings for commission expenses allowable against Corporate Income Tax (CIT)

On 19th March 2009, the Ministry of Finance (MOF) and State Administration of Taxation (SAT) jointly issued a Circular, Cai Shui [2009] No.29, which introduces ceilings for commission payments as tax allowable expenses. For the vast majority of cases not related to insurance business the ceiling is 5% of the relevant revenues.

As with many other tax legislations and regulations, some of the provisions in this Circular have their ambiguities and so taxpayers need to work out with their local tax authorities to confirm how these provisions will be implemented. Sino-Bridge will be happy to offer help in this area.

Further uplifting of export Value Added Tax (VAT) refund rates

On 27th March 2009, the Ministry of Finance (MOF) and State Administration of Taxation (SAT) jointly issued a Circular, Cai Shui [2009] No.43, which further uplifts the Value Added Tax (VAT) refund rates for the exportation of a variety of products with effect from 1st April 2009.

VAT refund rate adjustments have been an important tool used by the government to regulate the economy. Its usefulness under the current economic conditions is increasingly questioned by some economists who argue that the current crisis has widespread impacts on all aspects of the global economy and they doubt if maneuvering exports could enable China to redress the adverse effects of the crisis to the extent desired.

Promotion of application of consolidated CIT management computer system

State Administration of Taxation (SAT) issued a notice, Guo Shui Han [2009] No. 141, on 19th March 2009, to promote the application of consolidated CIT management computer system. The software was developed last year since the implementation of new CIT provisions and the new regulations for consolidated CIT for headquarters and branches. It has been running as a test in 7 provinces and cities for more than half a year and the result is satisfactory. SAT will apply it in all the provinces in China from July this year.

More and more computer systems are developed or purchased by the tax authority to improve tax management efficiency and effectiveness. All taxpayers, especially the Small-Medium-Enterprises (SMEs) have to be aware of the need for acquiring appropriate equipments and employing finance staff who have adequate IT knowledge and skills to this end.

Changes in administration of customs VAT import invoices filing for input VAT

Guangdong Provincial State Tax Bureau transmitted a notice from SAT (Guo Shui Han [2009] No. 83) on 9th April 2009 to introduce new requests for filing for the claim for input VAT in respect of imported materials. Previously, taxpayers could file for such claims on the month the VAT import invoices were received. The new regulation stipulates that verification of necessary materials needs to take place first on the month the claim is filed. The claim can only then be processed in the subsequent month upon satisfactory verification of those materials. This new requirement is imposed in the wake of more fake VAT import invoices being discovered.

New Office

We take the opportunity of this April issue to advise readers of China Business Advisory that we have set up an operating base in Shenzhen this month in addition to the current three offices in China (Hong Kong, Shanghai and Guangzhou) and two offices in France (Paris and Lyon) to further enhance our base and capabilities to serve our client. It will be our honour to welcome you at this new office the address of which can be found at the end of this newsletter.

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