

China Business Advisory

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Supplementary Individual Income Tax (“IIT”) regulations

Following the recently enacted New IIT Provisions on which we briefed you in our last edition, several supplementary regulations have been released by the government. They include:

1. The Implementation Rules of the new IIT Provisions announced by State Council on 19th July 2011 increases the personal monthly allowance from RMB2,000 to RMB3,500 for local

Chinese and keeps at the same amount of RMB4,800 for expatriates working in China;

2. Circular Caishui [2011] No. 62, jointly released by State Administration of Taxation (“SAT”) and Ministry of Finance (“MOF”) on 29th July 2011, stipulates the personal allowance for individuals deriving income from individually-owned, sole proprietorship and partnership businesses to be RMB42,000 per annum, or RMB 3,500 per month;
3. SAT’s Pronouncement No. 46 released on 29th July 2011 deals with cut-off issues of the old and new IIT Provisions and calculation of IIT for the whole year of 2011;
4. SAT’s Pronouncement No. 44 released on 27th July 2011 reduces the advance IIT rate of individual business in transportation industry from 2.5% to 1.5%;

All of the above regulations will come into effect on 1st September 2011, when the new IIT Provisions become effective. Please note that currently there is confusion over the validity of a so-called Pronouncement No. 47 which is aimed at addressing certain issues relating to the calculation of IIT in respect of annual bonus. The Pronouncement has been widely reported by the media but SAT advised that it is just a rumor rather than an official circular. We will watch the development in this regard and update our readers when relevant rules are announced.

Clarification on recognition of Value Added Tax (“VAT”) liability

SAT released Pronouncement No. 40 on 15th July 2011 to deal with cash sales transactions where products have been delivered to the buyer and sales have been recognized. The Pronouncement clarifies that VAT liability should be recognized when

1. Payment has been received;
2. Effective document to collect the payment has been obtained; or
3. The relevant invoice has been issued

whichever takes place earlier.

Tax exemption for teachers and researchers

In a number of Double Tax Treaties (“DTT”) between China and other countries or regions, teachers and researchers are granted tax exemption for a certain period when they are in China. On 25th July 2011, State Administration of Taxation (“SAT”) issued Pronouncement No. 42 to clarify on certain requirements for such exemption including the following:

1. justification for the employment with the relevant domestic institution;
2. the scope of activities covered by the tax exemption;
3. the qualification of the teachers and researchers who can enjoy the tax exemption;
4. the pre-requisites for applications for exemption;

The pronouncement came into force on the same day when the relevant DTT became effective.

Release of preferential tax policies in line with the Development Strategy for Western China

MOF, SAT and General Administration of Customs (“GAC”) jointly issued a circular, Caishui [2011] No. 58, which states several preferential tax policies to support the Western Development Strategy. Eligible enterprises which are in the “Encouraged Industry List” could benefit from a lower Corporate Income Tax (“CIT”) rate of 15% from 1st January 2011 to 31st December 2020 and be exempted from import duty for equipment imported for self-use.

CIT on overseas companies controlled by domestic enterprises

A trial version of “Administration Rules on CIT” aimed at deeming companies registered overseas but controlled by domestic enterprises to be resident tax payers was released by SAT on 27th July 2011 and

will be effective on 1st September 2011. It primarily deals with the following:

1. Definitions of the terms;
2. Conditions leading to the deemed resident tax payer status;
3. Administration of the tax registration and tax filing;
4. The handling of certain special issues;

Service Highlight

In the daily operation of enterprises in China, issues that appear to be trivial may have critical impacts. Sino-Bridge works with our clients closely to proactively identify matters of this nature and come up recommendations to deal with them in good time. Please call Mary Li, our Marketing Executive, on +852 35798745 or email her at maryli@sinobridge-consulting.com for how you too may benefit from our assistance.

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