SINO-BRIDGE
Consulting Group

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Newly released regulations relating to CIT Annual Settlement

As what we reminded our readers in the last issue, the Corporate Income Tax ("CIT") Annual Filing is in progress now. Alongside it some relevant policies have recently been released:

- Circular Caishui [2012] No. 10, announced jointly by Ministry of Finance ("MOF") and State Administration of Taxation ("SAT") on 5th January 2012 to clarify preferential CIT rates for public infrastructure construction, environment protection, energy and water saving projects for certain periods;
- Circular Caishui [2012] No. 5, also released by the same authorities, came out on 29th January 2012, to detail the rules on loan provision for finance companies;
- Tax authority in Beijing publicized its Pronouncement No. 16 and the "Guidance on Tax Allowance for Losses on Asset Disposals" on 17th January 2012 to provide more specific guidance on this subject during Annual CIT Filing;
- Shanghai tax authority released a circular, Huguoshuisuo [2012] No. 1, on 6th January 2012 to clarify on tax treatments for expenses, respectively incurred by companies and the agencies to whom they subcontract their staff employment, incidental to salaries and allowances paid to relevant workers and staff;

Customs Authority implements new Foreign Investment Guideline

Further to our notes on the new Foreign Investment Guideline (2011 Version) in last edition which became effective on 30th January 2012, General Administration of Customs ("GAC") issued its Pronouncement [2012] No. 4 to clarify the preferential policies on projects relating to the new Guideline. The importation of eligible equipments, relevant techniques and parts for projects which fall into the "encouraged" category in the new version of the Guideline can be exempt from customs duty. However, to keep the policy consistent, those projects which are filed before 30th January 2012 and included in the "encouraged" category in the previous version can enjoy exemption of customs duty by providing necessary application documents to the Customs Authority before 30th January 2013.

New edition of Customs Tariff released

GAC released the revised edition of Customs Tariff and Notes to Import and Export Commodities and Categories through its Pronouncement [2012] No. 5 issued on 29th January 2012. Enterprises which have import and export business should pay special attention to the changes and make necessary adjustments when doing customs declarations. The previous edition was released in 2007.

VAT deduction relating to the special tax administration equipment

Value Added Tax ("VAT") payers usually are requested to buy a set of VAT administration equipment, including encoded computer chip, IC card and reader, printer and scanner etc, to handle the day-to-day routines including issuing VAT invoices, online verification and other tax administration tasks stipulated by the tax authority. Since it is only for tax purpose, its input VAT had been allowed to be deducted against VAT payable prior to the previous VAT reform. Other fixed assets, say office computers, did not enjoy the same preferential treatment. However, the last VAT reform extended input VAT deduction to these other fixed assets too, making the VAT administration equipment not particularly attractive. To encourage the use of such special equipment, SAT and MOF jointly issued Caishui [2012] No. 15 on 7th February 2012 to allow for VAT deduction not just input VAT but also the full value of the equipment and the full service charge for its subsequent maintenance. This preferential treatment applies to equipment bought the first time not earlier than 1st December 2011.

VAT on selling of used fixed assets

SAT released its 1st pronouncement this year on 6th January 2012 to clarify VAT to be levied on the disposal of fixed assets previously used by the company selling them. Effective from 1st February 2012, 2% VAT will be levied and VAT special invoice is not allowed to be issued to the buyer, if the company selling the used fixed asset

- was a small-scale VAT payer when the relevant fix asset was bought and later on became a general tax payer and has remained so when it is sold;
- is a general tax payer who is not allowed to deduct and has not deducted such input VAT;

News on the latest VAT reform

The authorities (Finance Bureau, Local Tax Bureau, State Tax bureau) in Shanghai announced a new measure on 2nd February 2012 to facilitate the VAT reform in the city. From 1st January 2012, tax payers in Shanghai involved in the VAT reform (replacing Business Tax by VAT) can apply for fiscal compensation if their actual tax burden becomes higher than before. Operational details are expected to be released later.

It is also said that Beijing, as the capital of China and one of the biggest cities, has applied formally to SAT for joining the pilot VAT reform scheme. It might be approved this year and relevant enterprises are recommended to start analyzing the potential impacts on their business and make appropriate preparation accordingly in good time.

Service Highlight

The Chinese government has been incurring significant efforts such as on continuous reform and optimization of various regulations and policies to provide a better environment for investors, which is regarded as one of the most important means to boost the economy. Inevitably there are many changes and uncertainties along the course. Sino-Bridge sees these issues in the eyes of our clients and commits ourselves to helping our clients to turn them into opportunities for them to create a niche over their competition through their capabilities to operate successfully in China. Please call upon Ms. Mary Li, our Marketing Executive, on +852 3579 8745 or email her at maryli@sinobridge-consulting.com.for any issues you may wish to seek our assistance with.

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