

China Business Advisory

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2. Service Highlight

Further Administration Reforms on Foreign Exchange for Cross-border Trade and Financing

In order to further facilitate cross-border trade and investment, the State Administration of Foreign Exchange (“SAFE”) issued HuiFa [2017] No. 3 to set out some new measures with the aim of achieving

the three main objectives detailed below.

- Facilitation of trade and investment
 1. Loans in foreign currencies offered by Chinese banks to enterprises registered in China are allowed to be converted into RMB. Such loans must be used for the purpose of supporting goods export activities (i.e. the converted RMB funds are used to buy goods which are then exported). The loans should be repaid with the foreign funds obtained through exports rather than additional foreign funds purchased in the domestic market.
 2. Borrowed funds from overseas by Chinese companies with domestic guarantees or collaterals are now allowed to be transferred into China.

3. The maximum ratio of domestic usage of deposits in the international foreign exchange funds principal account of a domestic bank has been loosened from 50% to 100% of the daily average balance in the preceding 6 months.
 4. Foreign entities in pilot free trade zones are allowed to convert their foreign currency holdings in their domestic foreign accounts in China into RMB.
- Authenticity and compliance verification for outbound remittances
 1. The principle of “exporter receiving and importers paying foreign exchange” for trading is further emphasized in order to minimize irregular transactions.
 2. When handling an outbound remittance of profits earned by a foreign-invested enterprise (“FIE”), with a value of more than US\$50,000 or equivalent, banks shall conduct a review on the relevant documents including dividend distribution resolution, original tax filing form and audited financial statements. Moreover, the profit to be distributed should be the amount after proper recovery of losses in prior years.
 3. When a domestic investor conducts a registration with a local foreign exchange authority in relation to an outbound direct investment (ODI) and funds transferred out of China for the investment, both the source and the purpose of the funds are required to be stated with pertinent supporting documents such as resolution of its board of directors in relation to the outbound investment, the investment contract and other proof of investment authenticity.

- Reporting of overseas RMB and foreign currency holdings
 1. Domestic enterprises with RMB and foreign currency holdings overseas resulted from the export of goods or services that are yet to comply with the relevant statutory filing requirements are required to perform these procedures in accordance with applicable regulations within one month from the date of the release of this circular.
 2. For a domestic institution granting loans abroad, the total balance of its outbound loans in RMB and foreign currencies shall not exceed 30% of the owner's equity in the audited financial statements of the previous year.

Clarification on Preferential Policies for Resource Tax

The State Administration of Taxation (“SAT”) and the Ministry of Land and Resources (“MLR”) have jointly issued an Announcement concerning the Implementation of Preferential Policies for Resource Tax Reform (the "Announcement") which will come into effect from the promulgation date.

Clarifications on the four items below are noted on the Announcement:

1. Cut and fill mining and mines in an exhaustion period (i.e. mines with remaining reserve that is less than 20% of the original reserve or mines with less than 5 years of remaining life) reserve shall be subject to resource tax at a reduced rate with simplified filing procedures.
2. The Announcement provides that resource tax shall be reduced by 50% for mineral resources extracted from beneath buildings, railways and water bodies by way of cut and fill mining in accordance with the law. Resource tax shall be reduced by 30% for mineral

resources extracted from mines in an exhaustion period with an actual extraction duration of 15 years (inclusive) or longer.

3. According to the Announcement, taxpayers shall separately calculate the sales revenue or sales volume of items eligible for different levels of tax reduction. Otherwise, they would not benefit from the tax reduction.
4. Where a taxable business is eligible for two or more tax relief policies regarding resource tax, such taxpayers can only benefit from one of these tax reductions. Taxpayers are allowed to elect the preferential tax reduction at their own discretion.
5. Tax authority will apply dynamic administration with support of land and resources authority after the approval of preferential resource tax treatment.

Social Security Treaty between China and Canada

The General Office of the Ministry of Human Resources and Social Security issued a circular (the "Circular") for Implementing the Treaty between China and Canada on Social Security (the "Treaty") which came into force on 1st January 2017.

The Circular includes two sections as detailed below:

1. The Circular describes the main content of the Treaty and the administrative measures for avoiding double payment of insurance. It provides that the scope of reciprocally exempted insurances covers the Basic Old-Age Insurance for employees and for urban and rural residents in China.
2. Chinese individuals eligible for exemption of social insurance contributions in Canada include dispatched personnel, self-employed individuals, employees working in vessels and aircrafts, government officers and others. The conditions for eligibility of exemption of social insurance contribution are similar for Canadians.

3. Moreover, the Circular sets out procedures for Chinese individuals residing in Canada on how to apply for the Certificate of Insurance Participation in order to apply for the exemption.

A total of eight foreign countries have signed the Treaty on Social Security with China government to date. These countries include South Korea, Finland, Denmark, Canada, France, Germany, Switzerland and Holland.

Foreigners' Fingerprints Required at Entry Checkpoints

The Ministry of Public Security ("MPS") has issued an Announcement last month with regards to the collection of foreigners' fingerprints and other human biological identification information at entry checkpoints.

According to the Announcement, border control authorities will take fingerprints of foreigners aged between 14 and 70 when they enter China through certain ports this year. Such policy will be rolled out gradually to all open ports across the whole nation.

Foreigners who satisfy any of the following circumstances may be exempted from having their fingerprints and other human biological identification information collected.

1. Persons holding a diplomatic passport or diplomatic or courtesy visa except those from a country having reciprocal arrangements with China;
2. Persons who are entitled to reciprocal exemption from leaving fingerprints under relevant bilateral agreements or reciprocal arrangements;
3. Persons who are officials at or above the vice-ministerial level from a foreign country and members of the delegation led by such officials who are entitled to collective facilitated entry procedures under relevant provisions of the MPS;

4. Persons who have incomplete fingerprints of all ten fingers or are incapable of leaving the fingerprints of any finger;
5. Persons to whom an exemption is granted by the MPS under special circumstances.

Service Highlight

China continues to attract investors from all over the world as it is fast emerging as one of the largest markets. While the Chinese puts in continuous effort to improve its domestic regulations and simplify its administrative processes to enhance the business environment, it is important that investors are up to date with the changes and can adapt accordingly. Sino-Bridge is always well prepared and pleased to help investors to realize their full potential. Our Marketing Executive, Ms. Kimme Chan, looks forward to hearing from you at (852) 3579 8745 or kimmechan@sinobridge-consulting.com for any assistance and support we could provide you with.

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