

China Business Advisory

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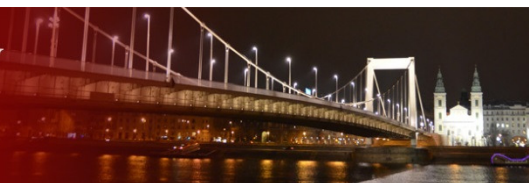


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Newly Signed Bilateral Social Security Treaty with Japan

After years of negotiation, the Bilateral Social Security Treaty (the “Treaty”) between China and Japan was formally signed on 9th May 2018.

The key points are as follows:

- Insurance covered
 - ✓ Basic pension insurance in China;
 - ✓ National pension and welfare pension in Japan
- Individuals covered

Dispatched employees, seaman, aircraft employees, civil servants, diplomats, consulate employees and their accompanying family members, who have paid social security in one contracting country will be entitled to exemption from the other contracting country.
- Applicable period
 - ✓ For dispatched employees, the first period of exemption is five years. For employees dispatched before the Treaty took effect, the five-year period starts from the effective date of the Treaty.

- ✓ If the dispatch term exceeds five years, the period of exemption can be extended based on the agreement between the relevant authorities or agents of the two countries.

In recent years, China has made remarkable progress in entering into bilateral agreements on social security with other countries. To date, these countries include Germany, Korea, Denmark, Finland, Canada, Switzerland, Netherlands, France, Spain and Luxembourg. This effort is expected to reduce the cost of expatriate work arrangements of multinational companies in China.

Further Tax Relief for Start-ups and Small and Micro Enterprises

During the Executive Meeting of the State Council held on 25th April 2018, a decision was made to introduce further tax relief in order to support innovation and development of start-ups and small and micro enterprises. The key points are as follows:

- From 1st January 2018 to 31st December 2020, enterprises with newly purchased R&D devices or equipment of unit value not more than CNY5 million (previously CNY1 million) may claim a lump-sum deduction rather than depreciation over years for Corporate Income Tax (“CIT”) filing.
- From 1st January 2018 to 31st December 2020, qualified small and micro enterprises with annual taxable income under CNY1 million (previously CNY0.5 million) can enjoy the preferential effective CIT rate of 10%.
- From 1st January 2018, R&D costs of activities outsourced overseas will become eligible for super deduction for CIT filing.

- From 1st January 2018, the loss carry-forward term for High- and New- Technology Enterprises (“HNTEs”) and scientific and technological Small and Medium Enterprises (“SMEs”) will be extended from 5 years to 10 years.
- From 1st January 2018, the application of increased CIT deduction cap (8% vs. 2.5%) of employee education expense will be expanded from HNTEs to all enterprises.
- From 1st May 2018, Stamp Duty (“SD”) of paid-up capital and capital reserves will be halved and that of accounting books will be exempted.
- Venture capital firms and angel investors in certain pilot areas have been enjoying preference tax treatment where 70 percent of the investment to scientific and technological enterprises that are in their seed or initial start-up stage can be deducted from taxable income. This preferential tax treatment will be applicable to the whole nation from 1st January 2018 and 1st July 2018 for CIT and individual income tax respectively.

To support the above tax reduction measures, Caishui [2018] No. 55 (“Circular 55”) was jointly released by the Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) on 14th May 2018 to clarify on the definition of scientific and technological enterprises, modes of equity investments and logistics of implementing these tax reduction measures.

Expansion of Tax Incentives for Advanced Technological Service Companies

MOF, SAT, National Development and Reform Commission, Ministry of Science and Technology and Ministry of Commerce jointly released Caishui [2018] No.44 (“Circular 44”) on 19th May 2018

to expand the preferential CIT policies for qualified Advanced Technological Service Companies (“ATSCs”) from pilot areas to the whole nation.

Circular 44 replaces Caishui [2016] No. 122 (“Circular 122”) released in December 2016 which covers ATSCs in 15 pilot areas for innovative development of service trade. According to Circular 44, a reduced CIT rate of 15% will become applicable for eligible ATSCs from 1st January 2018 onward. The qualification and administration of ATSCs will be conducted by the provincial science and technology departments and local commerce, finance, tax and reform and development departments.

To qualify as an ATSC, the company has to provide one or more of the following services:

- Computers and information services: information systems integration services, data services
- Research and development and technical services: research and experimental development services, industrial design services, intellectual property cross-border licensing and transfer
- Cultural and technical services: digital production of cultural products and related services, translation, cultural products dubbing and production services
- Medical services for Chinese medicine: Chinese medicine health care and related services

Further Opening-up of Futures Market to Foreign Financial Institutions

China planned to complete the opening-up of futures market by 2020. In order to attract foreign financial institutions to invest in futures businesses in China, the China Securities Regulatory

Commission (“CSRC”) together with relevant authorities jointly released a discussion draft on the Administrative Measures for Foreign-invested Futures Companies (“Discussion Draft”) on 4th May 2018 to collect public opinions. The key points are as follows:

- Applicable to futures companies that are held (directly or indirectly) by a single or multiple-related foreign shareholders with more than 5% of their stock equity.
- Qualified shareholders need to satisfy the following criteria:
 - Financial institutions that have been operating for five or more consecutive years
 - Financial institutions that have achieved high credit ratings for at least the past 3 years
 - Financial institutions with good international reputation and operating performance, and have been a leader in their field for at least the past 3 years
- Indirect shareholding conversion: except for the indirect holding of foreign-invested futures companies through domestic securities companies and other circumstances stipulated by the CSRC, foreign investors who control more than 5% of the stock equities of foreign-invested futures companies through investments, agreements or other arrangements shall be converted to direct holding.
- Senior management duties: all senior management personnel of foreign-invested futures companies must perform their duties within the territory of the People's Republic of China (“PRC”), and the number of senior managers with PRC nationality cannot be less than one third of the total number of senior management personnel.
- Document language: the application documents submitted by foreign-invested futures companies to CSRC must be in Chinese, and foreign language documents used in the course of business operations should be accompanied by a proper Chinese translation.

- Information technology supervision: the core servers of information systems such as those for transactions, settlements and risk control of foreign-invested futures companies, and data devices for recording and storing customer information shall be set up in the PRC (excluding Hong Kong, Macao, and Taiwan regions).

Service Highlight

From the many new and updated polices released, it is evident that the Chinese government has been putting in strenuous effort to improve the investment environment of China. Reforms in many key areas such as business registration, tax and investments have commenced and are expected to continue to affect companies operating in China. We are more than pleased to discuss with you on how to make the most out of these reforms to enhance the competitiveness of your business. 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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