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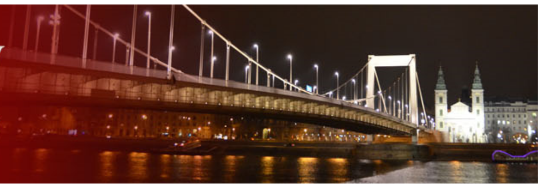

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Amended Corporate Income Tax Law Regarding Charitable Donations

The Standing Committee of the National People's Congress approved the first amendment to the Corporate Income Tax ("CIT") Law of China through Chairman's Order [2017] No. 64 ("Order 64"), and prescribed that the CIT Law shall be amended and announced accordingly. Order 64 became effective on its promulgation date, 24th February 2017.

The amendment of CIT law was made to Article 9 where a carry-forward rule was added. The rule specifies that, "Charitable donations made by an enterprise are deductible for CIT purposes with a cap of 12% of its annual profit before tax. Any excess amount is allowed to be carried forward within the following three years for future CIT deduction." This rule aims to encourage tax payers to donate to charities. This amendment is also in line with Article 80 of the China Charity Law which took effect on 1st September 2016. The Article specifies that, "natural persons, legal persons or other organizations that donate property for charitable activities are eligible for tax benefits. Charitable donations by corporations exceeding the CIT deduction limit can be deducted from taxable income over the following three years."

Under this new rule, enterprises which are charitable donors would benefit from preferential tax treatment. It is expected that other pertinent regulations will be updated and released shortly.

Preferential Policies for Foreign Investors to Central and Western China

In order to reinforce the new policy on foreign investment (Guo Fa [2017] No. 5) published by the State Council on 17th January 2017 which sets out 20 measures to further attract foreign investment, the National Development and Reform Commission ("NDRC") and the Ministry of Commerce ("MOC") jointly released the revised Catalogue of Priority Industries for Foreign Investments in the Central and Western Region (the "2017 Catalogue") on 17th February 2017. The 2017 Catalogue was updated based on the 2013 Catalogue and came into effect on 20th March 2017.

The following amendments were noted in the 2017 Catalogue compared with the 2013 Catalogue with a total of 639 priority industrial items noted,

- 34 items were deleted
- 84 items were modified
- 173 were newly added

The major changes and highlights on the 2017 Catalogue are:

- Promoting the transformation and upgrade of traditional industries: processing of green food and standardization of vegetable base construction were added for provinces with agricultural advantages. In addition, new intelligent monitoring and control devices, modern agricultural equipment were introduced to support the use of advanced technology to upgrade the traditional manufacturing industry.

- Supporting the development of applicable high and new-technology industries: 6th or lower generations of TFT-LCD glass substrates, integrated circuit manufacturing, smart phones, tablet PCs, bio-medical were added for the provinces with good industrial base to support the development of electronics and medicine industries;

- Encouraging accelerated development of services industry: projects such as engineering reconnaissance and design, graphic design, logistics were newly included in certain provinces to promote the specialization and upgrade of the production servicing industry. Tourism and leisure, culture and sports were newly added in certain provinces to refine and upgrade the consumer service industry;

- Promoting the development of labor-intensive industries: export-oriented textile, clothing, and furniture industries were added for the provinces with labor advantages to promote new export-oriented industrial clusters which will actively undertake the labor-intensive foreign investment from eastern region of China and overseas;

- Strengthening infrastructure and industry support: urban parking facilities, electronic car charging facilities, road freight station facilities were added for certain provinces to promote the development of traffic logistics network; semiconductor lighting materials and automotive parts. Intelligent terminal products were newly added to enhance the supporting capacity of automotive, electronics and other industries;

- Deletion and adjustments to adapt to the new situation: items related to manufacturing of automotive parts and equipment for biomass power generation were modified to be in line with the adjusted industrial structures in certain provinces. Some items have been deleted from the priority industry list, such as pilot training, aviation clubs and deep processing of rosin, etc.

Foreign investment projects which fall under the scope of the 2017 Catalogue may enjoy certain preferential treatments, which include:

- Customs duty exemption for the import of self-use equipment;

- Priority of land use for intensive land supply projects. The land transfer bottom price is 70% of “National Bottom Price Standard for Industrial Land Transfer”;

- Tax incentives entitlement of reduced Corporate Income Tax rate of 15%.

The 2017 Catalogue demonstrates the Chinese government's continuous efforts to build an investment-friendly environment for foreign investors and improve international competitiveness.

Updated Policy for Multinational Companies' Headquarters in Shanghai

On 27th January 2017, the Shanghai Municipal Government released Hu Fu Fa [2017] No. 9 ("Circular 9") to update the policy in relation to the establishment of regional headquarters in Shanghai by multinational corporations. Circular 9 came into force on 1st February 2017 and will be valid until 31st January 2022.

Compared with the previous version released in 2011, the following key improvements are noted:

- Relaxation of qualification requirements on regional headquarters in service industry: the requirement for total assets of the parent company of wholly foreign owned enterprise ("WFOE") has been reduced to US$300 million from US$400 million if its parent company operates in the service industry;

- Introduction of the concept of "entity with headquarters functions": a foreign-invested company or its branch office that actually undertakes several supporting functions such as strategic management, capital management, purchasing and sale, logistics, account settlement, research and development etc. for enterprises in the region of more than one country can apply for the qualification of "entity with headquarters functions" even if it cannot reach the criteria for a regional headquarters. This qualification would allow the entitled companies to enjoy preferential policies that also apply to regional headquarters;

- Requirements for the recognition of entities with headquarters functions:

    - the entity must be a foreign-invested enterprise or its branch must be of independent legal status;

    - the total assets of the parent company shall be no less than US$200 million

- the parent company should have set up no fewer than two foreign-invested companies in China, at least one of which should be registered in Shanghai;
- the registered capital or working capital of each such entity should be no less than US$2 million;

- Abolition of the specific scope requirements for the business of the regional headquarters: the regional headquarters would have greater flexibility in operations in China depending on the Group's overall business arrangements, such as production, trade and other business operations;

Qualified regional headquarters and entities with headquarters functions can enjoy preferential policies for capital management, entry and exit formalities, talent introduction and customs clearance.

Further Reduction of Tax Burden for Companies and Individuals

The Chinese People's Political Consultative Conference ("CPPCC") and the National People's Congress ("NPC") held meetings in Beijing in March which were attended by thousands of officials and business leaders. Issues in relation to reduction of tax burden for companies and individuals were discussed during the meetings. The key information is summarized below:

- China will improve the value-added tax system to lower tax with measures such as simplifying China's four-tier VAT system to three tiers and introducing several additional tax breaks;

- China will implement tax preferential policies to support the development of small and micro-sized enterprises. Enterprises with annual taxable income of no more than RMB500,000 are expected to be eligible to halve their taxes, which would be a further increase from the current threshold of RMB300,000;

- China will cut taxes and administrative fees by RMB550 billion in 2017 to further reduce the tax burden of enterprises;

- China is planning to reform its individual income tax regime by introducing certain deductions for family expenditures.

Service Highlight

It is evident that the Chinese Government is making continuous efforts to build an investment-friendly environment for foreign investors. In this fast changing environment, it is important that businesses are up to date with the current developments. Sino-Bridge will not only provide our clients with up-to-date information about the current business outlook but also our unique point of view on how clients can make the most of these developments. Our Marketing Executive, Ms. Kimme Chan, will be more than happy to hear from you via landline (852) 3579 8745 or email kimmechan@sinobridge-consulting.com.

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