

China Business Advisory

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2. Service Highlight

Simplification and Unification of VAT Rates

On 28th April 2017, the Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) jointly issued a notice, Caishui [2017] No. 37 (“Circular 37”) which will take effect on 1st July 2017. Circular

37 aims to simplify and unify Value Added Tax (“VAT”) rate structure by eliminating the VAT rate of 13%. Circular 37 is mainly made up of the following components:

- Revision of VAT rate from 13% to 11% for the following commodities, agricultural products (including food), tap water, heating, liquefied petroleum gas, natural gas, edible vegetable oil, cool air, hot water, coal gas, coal products for residents, edible salt, agricultural machinery, feed, pesticide, agricultural film, chemical fertilizer, methane, dimethyl ether, books, newspaper, magazine, audio-visual products, electronic publications.
- Input VAT deduction in connection with the purchase of agricultural products
 - I. The deductible input VAT varies under different circumstances,
 - ✧ When a taxpayer purchases agricultural products and obtains import VAT receipt or special VAT invoices from a general VAT taxpayer, the deductible input VAT is the VAT amount on the import VAT receipt or the special VAT invoices;

- ◇ When a taxpayer purchases agricultural products and obtains special VAT invoices from small-scale VAT taxpayers, the deductible input VAT shall be calculated at 11% of the total amount of the special VAT invoices;
 - ◇ When a taxpayer purchases agricultural products and obtains related invoices or issues agricultural product sales invoices, the deductible input VAT should be calculated at 11% of the purchase price on the agricultural product or sales invoices.
- II. During the VAT pilot reform period, the input VAT deduction shall still be subject to the prevailing VAT regulations, i.e. 13% for taxpayers who purchase agricultural products to process products that are subject to VAT of 17%.
- III. When a taxpayer obtains normal VAT invoices from wholesalers and retailers for vegetables, fresh meat and eggs which are exempt from VAT, such invoices are not allowed to be VAT deductible.
- The export tax refund rate of the relevant products is adjusted and unified to 11%.
 - For goods exported by trading enterprises before 31st August 2017, if they are subject to VAT of 13% upon purchase, the applicable export tax refund rate will also be 13%. On the other hand if the VAT paid is at 11% upon purchase, the applicable export tax refund rate will be 11%.
 - For goods exported by manufacturing enterprises by 31st August 2017, the applicable export tax refund rate will be 13%.
 - The export date will be determined according to the date indicated on the customs declaration form. The gap between the cut-off date of 31st August 2017 and the date that Circular 37 becomes effective allows enterprises to have a certain amount of transition time.

Higher Super Deduction Percentage for Eligible R&D Expenses of Qualified Technology-based Small and Medium-sized Enterprises

Premier Li of the State Council delivered the Report on the Work of the Government in 2017 (“2017 Report”) in March 2017, which promises to raise the super deduction granted to qualified technology-based small and medium-sized enterprises on their eligible R&D expenses.

On 2nd May 2017, MOF, SAT and the Ministry of Science and Technology (“MOST”) together issued a notice, Caishui[2017] No. 34, to bring the above promise into practice. The key information is summarized as below:

- Qualified technology-based small and medium-sized enterprises are allowed to claim a super deduction of 75% (previously 50%) on eligible R&D expenses incurred in the course of R&D activities from 1st January 2017 to 31st December 2019;
- Where R&D expenses incurred are capitalized as intangible assets, it is allowed to amortize the intangible assets based on 175% of the actual cost incurred;
- Other matters related to the R&D super deduction for qualified technology-based small and medium-sized enterprises are governed by another notice, Caishui[2015] No. 119;
- The qualification criteria and relevant administrative measures of technology-based small and medium-sized enterprises will be released by the MOST, MOF and SAT separately.

One Belt One Road Forum in Beijing

The two-day One Belt One Road Forum for International Cooperation kick started on 14th May 2017. Chinese President Xi Jinping delivered a keynote speech at the opening ceremony, elaborating on the One Belt One Road Initiative.

Proposed in 2013, the One Belt One Road Initiative is a grand plan to connect Asia with Europe and Africa along, and beyond, ancient trade routes by putting in place an unparalleled trade and infrastructure network. Great achievements have been made under the initiative in the past four years, which have seen deepened policy connectivity, enhanced infrastructure connectivity, increased trade connectivity and expanded financial connectivity as the vision of the One Belt One Road Initiative is becoming a reality and bearing rich fruit.

With the One Belt One Road Initiative receiving support from nearly 100 countries and international organizations, China has signed more than 50 intergovernmental cooperation agreements with participating countries and various international organizations.

The One Belt One Road Initiative has successfully promoted international cooperation and China will continue to contribute through various efforts:

- Chinese railway authorities will sign agreements with pertinent parties in related countries to strengthen and deepen collaborations on China-Europe regular railway cargo services;
- China will inject 100 billion yuan to scale up the Silk Road Fund;
- China will sign business and trade cooperation agreements with over 30 countries and take part in discussions on free trade agreements with some countries ;
- China will host the China International Import Expo from 2018;
- China will launch the One Belt One Road Science, Technology and Innovation Cooperation Action Plan;
- China will provide 60 billion yuan to developing countries and international organizations taking part in the One Belt One Road Initiative to launch more projects to improve people's well-being;
- China will set up liaison mechanisms to boost the One Belt One Road cooperation for the Forum's follow-up activities.

The One Belt One Road is the most important initiative in international cooperation since China adopted the reform and opening policy. It not only reflects China's firm stand on sticking to opening to the world and driving development with cooperation, but also underscores China's initiative in undertaking the responsibility for boosting world economic growth and systemic reform of global governance in response to the changes both in China and other countries.

Service Highlight

With the Chinese government's continuous effort in enhancing China's business environment through improvement in domestic regulations and simplification of administrative processes, it is critical for businesses to be up to date with these rapid changes. With more than two decades of experience in providing consulting services to businesses operating in China, Sino-Bridge is confident that it can provide its clients with insightful and practical advice. For further information on how we can be of assistance to your company, please contact our Marketing Executive, Ms. Kimme Chan, at (852) 3579 8745 or kimmechan@sinobridge-consulting.com.

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