SINO-BRIDGE Consulting Group

China Business Advisory

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2. **Service Highlight**

Reduced Enterprise Employees' Insurance Contribution

The State Council released a Comprehensive Plan to reduce social insurance rates on 1st April 2019 with lower contributions payable by employers as part of a broader effort to reduce corporate burden.

The key points are as follows:

- Currently the employer's contribution ratio of urban employee basic aged-care insurance in most provinces is 20 or 19 percent. All such contribution ratio will be reduced to 16 percent from 1st May 2019;
- For provinces where the contribution ratios are currently lower than 16 percent (such as Guangdong and Zhejiang), transition policy will be announced shortly;
- The gradual reduction of unemployment insurance and work injury insurance contribution rates will be extended until 30th April 2020. Further reduction will be applied in eligible areas where fund balances are adequate.

- Inclusion of salary data of private companies (where salary is on average lower than that of non-private companies) to calculate average salary for determining the lower and upper limits (60% and 300% of the average salary) for social insurance contribution.

The above changes are part of China's efforts to reduce the burden of businesses, and it is expected that the measures will result in savings to corporations of at least RMB190 billion basic aged-care insurance contributions, and RMB110 billion unemployment insurance and work injury insurance in the year of 2019, according to government officials.

New Preferential Individual Income Tax ("IIT") Policies in Greater Bay Area

On 16th March 2019, the Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly announced Caishui [2019] No.31 ("Circular 31") to introduce new Preferential IIT policies in the Greater Bay Area ("GBA"). The key points are as follows:

- Overseas (including Hong Kong, Macau, and Taiwan) high-level and urgently-needed talents working in the GBA will be eligible for a subsidy equivalent to differences between IIT payable by them in Mainland China and the tax payable by them in their respective home jurisdictions. The subsidy is exempt from IIT.
- The policy will be effective from 1st January 2019 to 31st December 2023.
- The policy is applicable in nine cities in the GBA and Pearl River Delta including Guangzhou, Shenzhen, Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen, and Zhaoqing.
- Detailed implementation rules such as eligible criteria of the talents and administrative measures of the subsidy will be released in due course by the relevant authorities.

The introduction of this policy will significantly reduce the actual IIT burden of overseas talents working in the GBA, and therefore it is expected to attract more highly-qualified personnel to work in this area.

Further Expansion of Scope of Preferential Corporate Income Tax ("CIT") Policies on Accelerated Depreciation of Fixed Assets

During the year of 2014 and 2015, MOF and SAT issued circulars to clarify the relevant accelerated depreciation policies for fixed assets for certain key industries, which mainly includes the following aspects:

- Fixed assets newly purchased by some key industrial enterprises are allowed to shorten the depreciation period by 60%, or choose to adopt accelerated depreciation method;
- Devices and equipment used for research & development ("R&D"), production and business operations by Small Low-Profit Enterprises in key industries, are allowed to be fully deducted in the year of purchase for the purpose of calculating CIT payable if the unit value do not exceed RMB 1 million;
- Devices and equipment acquired and used for R&D purposes in all industries are allowed to be fully deducted in the year of purchase for the purpose of calculating CIT payable if the unit value do not exceed RMB 1 million; while shortening of depreciation years or accelerated depreciation for assets with unit value exceeding RMB 1 million are allowed.
- Fixed assets held by enterprises in all industries with a unit value of not more than RMB 5,000 are allowed to be fully deducted in the year of purchase for the purpose of calculating CIT payable.

Besides, devices and equipment acquired between 1st January 2018 and 31st December 2020 are allowed to be fully deducted in the year of purchase for the purpose of calculating CIT payable if the unit value do not exceed RMB 5 million.

To encourage technological transformation and equipment upgrading, MOF and SAT jointly released Announcement [2019] No. 66 ("Circular 66") on 23th April 2019 to expand the applicable scope of preferential CIT policies on accelerated depreciation of fixed assets to cover all manufacturing sectors.

Circular 66 also simplify the process. Enterprises can now make their own judgement on their eligibility and maintain proper documentations for checking and it is no longer necessary to perform relevant application formalities with the authorities.

New Double Tax Agreements ("DTA") with Italy and New Zealand

Updated agreements have been reached with Italy and New Zealand for the Elimination of Double Taxation with Respect to Taxes on Income and the Prevention of Tax Evasion and Avoidance with the People's Republic of China ("PRC") on 23rd March 2019 and 1st April 2019 respectively. Some key differences between the old versions and the new agreements could be found below:

Item	New PRC-Italy DTA	New PRC-New Zealand DTA
Permanent establishment (PE)	- The duration to determine construction and service PEs is adjusted from 6 months to 183 days - Specific circumstances added where an agent acting on behalf of a company of the other contracting state shall not be considered as an independent agent	- The duration to determine construction and service PEs is adjusted from 6 months to 183 days - The duration to determine PE constituted for activities in exploitation of natural resources is changed from 6 months to 183 days - Agency PE relevant contents added

Withholding Tax Rates	- Adding conditions for the lower tax rate in "Dividends" section (10% decrease to 5%/10%) and "Interest"(10% decrease to 8%/10%), as well as conditions for tax exemption in the source country for dividend and interest.	- Adding conditions for the lower WHT rate (15% decrease to 5%/15%) and situation for no tax in the "Dividend". - Revising conditions for tax exemption for "Interest". - Updating the definition of "royalty".
Capital gains	- Revising the paragraph regarding gains from disposal of shares in a land-rich company, and gains derived from the alienation of shares.	Not Applicable
Alienation of property	Not Applicable	- Containing a provision dealing with fiscally transparent entities and a Principal Purpose Test
Method for elimination of double taxation	- Revising conditions for tax credits on dividends in the "Methods for Elimination of Double Taxation"	- Revising conditions for tax credits on dividends in the "Methods for Elimination of Double Taxation"
Others	- Adding a new general anti-abuse rule - Adding restrictions on "Exchange of Information", and related matters	- Adding restrictions on "Exchange of Information", and related matters

Service Highlight

From so many new or updated polices released, it is evident that the Chinese government has been putting strenuous effort to improve the investment environment of 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. Rika Wong, looks forward to hearing from you at (852) 3579 8745 or rikawong@sinobridge-consulting.com for any assistance and support we could provide you with.

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