

## China Business Advisory

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### **New rules for foreign investments unveiled**

The State Council released new rules on foreign investments reflecting current government policy trend. According to the new regulations, foreign investments are welcome in the areas of top-end manufacturing, hi-tech industries, modern service sectors, energy-saving and environmental protections. Investments in polluting, high energy-consuming industries and projects in industries with overcapacity will be restricted.

Multi-national companies are encouraged to set up, their regional headquarters, R&D center, procurement base, financial management and settlement hub. Qualified foreign-invested R&D centers are exempt from custom duties, VAT and consumption tax for the import of items for scientific and technological development up to the end of 2010. Furthermore, foreign investments are also encouraged to be in the central and western areas of China. The government will support qualified foreign-invested companies to go public, issue corporate bonds and medium-term bills in China.

### **Updated regulations on the administration of Value-added Tax (“VAT”) general taxpayers**

Further to the revised Provisional Rules of VAT released in November 2008 which took effect on 1<sup>st</sup> January 2009, the State Administration of Taxation (“SAT”) issued earlier this year the revised Administrative Measures on the Recognition of VAT General Taxpayers and on the Tutorial Period for VAT General Taxpayers. Both regulations came into force on 20<sup>th</sup> March, 2010. It is stipulated that all the VAT taxpayers who do not qualify as a Small-scale VAT Taxpayer have to apply for the recognition of General Taxpayer. A 3-month or 6-month tutorial period will be imposed on certain kinds of new

General Taxpayers when they will be subject to more stringent administrative requirements regarding the supply of VAT special invoices, ceiling amount for the invoices, VAT record keeping. The affected enterprises should review their situation and take prompt actions to avoid the undue exposure resulting from these measures.

### **Are services to China domestic recipients by non-resident providers subject to Business Tax?**

According to China's previous Business Tax ("BT") regulations, services rendered overseas to Chinese domestic recipients were not subject to BT. However, the authorities released the revised regulations at the end of 2008 which came into force on 1<sup>st</sup> January, 2009. One of the most important changes was services for which either the provider or the recipient is located in China would be defined as "domestic", which means being taxable. Many non-resident service providers showed great concerns about this and raised a lot of questions to the authorities regarding its details.

In September 2009, a new circular, Caishui [2009] No. 111 which also came into effect on 1<sup>st</sup> January 2009, was issued by the Ministry of Finance ("MOF") and SAT, in which some BT exemption policies were listed. It was interesting that there were some adverse clarifications to the above mentioned revised regulations. Services which are rendered completely offshore will not be subject to BT, e.g. cultural and athletic services (except television and broadcasting), entertainment, hotel and catering, etc. And a detailed list of these services will be published by the authorities in the future. Although the services listed in the circular only covered part of the offshore services in the real business circumstance, it did show a welcome development and may indicate possible exemptions to other services in the future. Related enterprises are recommended to review the relevant businesses properly and take appropriate actions on any overpaid BT and communicate with the local tax authority to maintain the necessary compliance.

## The grand World Expo comes

Time flies fast! The grand Shanghai World Expo 2010 comes in front of us. Shanghai has constructed a comprehensive urban transport system to serve all the visitors. Since the Expo site is divided by the Huangpu River, the organizer also provides public transport across the river which includes metro line, bus and ferry. For your convenience, we list out the following transport information:

<b>Metro Line Entrance/exit</b>	
Puxi Section	Madang Road Station of Metro Line 13
<b>Ground Entrance/exit</b>	
Puxi Section	Entrance/exit at Luban Road, South Xizang Road, Bansongyuan Road
Pudong Section	Entrance/exit at Bailianjing, West Gaoke Road, Shangnan Road, Changqing Road, Houtan
<b>Water Entrance/exit</b>	
Extra-Site Water Gate	Dongchang Road Water Gate, Qichangzhan Water Gate, Shiliupu Water Gate, Qinhuangdao Road Water Gate
Intra-Site Water Gate	Dock 1 (Miaojiang Road • Wangda Road) Dock 2 (Expo Avenue • Bailianjing Road) Dock 6 (Houtan Garden)
<b>Intra-Site Transport</b>	
Metro Line	Metro Line 13 is designed to facilitate visitors' travelling between Pudong and Puxi Sections. There are Madang Road Station, Lupu Bridge Station, and Expo Avenue Station on the line.
Ground Transport	Five bus routes, including two sightseeing routes, are designed to facilitate visitors' touring in Pudong or Puxi Section and traveling between the two sections.
Water Transport	Five ferry routes are designed to facilitate visitors' traveling between Pudong and Puxi Sections.

## Service Highlight

Because of the severe global financial crisis, the entire world has been reassessing the development in the past decades and trying to draw some lessons, making necessary adjustments or reforms to revitalize the economy as early as possible. China has been doing the same thing. Many opportunities are created as a result. Our professional teams are always prepared to help you ensure your success in this robust country!

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