

## China Business Advisory

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### Further policy announced to boost tourism in Hainan Island

Additional to the tax-refund program for overseas tourists in Hainan released in December last year (our CBA February 2011 Issue refers), another policy was announced by Ministry of Finance (Pronouncement NO. 14) on 16<sup>th</sup> March and became effective from 20<sup>th</sup> April, 2011, which was called “Pilot Program of Duty-free Shopping for Travelers Departing from Hainan Island”. This aims at promoting

the economic development of Hainan, the largest special economic zone and the only tropical provincial island in China. This program is applicable to both overseas and domestic visitors who have bought certain goods from designated duty-free shops and will leave by air to other domestic locations. Local residents can benefit from this policy as well. The first duty-free shops will be established in Sanya and Haikou, one shop in each city. However the duty free benefits are subject to some limitation as regards the value and kinds of products and also the number of times each person is entitled to such benefits.

### Further revision to Individual Income Tax (“IIT”) regulation in the pipeline

The further revision to the IIT regulations has been a hot topic for quite a while. People are expecting to see adjustments to the tax rates and the thresholds they apply to. The main objective is to mitigate the tax burden of lower and mid income group giving due regard to the trend of rising prices that does not have sign to subside in the near future. Some officials from Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) hinted that personal allowances for local Chinese might be

increased from RMB2000 to RMB3000 per month and the current 9 ranges of income subject to different progressive tax rates might be simplified. The other apparent objective of this further IIT revision is to focus on high-income individuals as regards tax collection for capital gain on transfer of equity investment and property, dividends, interests, income from sole proprietorship and partnership and foreign income, as well as income from domestic employment.

### **Minimum wages adjusted in main areas**

Many provinces and cities in China adjusted the local minimum wage level early this year. The administration of this regulation is to some extent at the discretion of the local government. For example, Shanghai stated explicitly that the minimum monthly wage increased from RMB1,120 to RMB1,280 which became effective from 1<sup>st</sup> April, 2011. However the new minimum wage of RMB1,160 in Beijing, took effect from 1<sup>st</sup> January, 2011. We suggest that you contact your local authority to ensure due compliance and adequate consideration being given to your costing and possibly the need for price changes.

### **Several points clarified regarding Corporate Income Tax (“CIT”) on non-resident taxpayers**

SAT issued its Pronouncement No. 24 on 28<sup>th</sup> March, 2011 to clarify several issues with regard to CIT on non-resident tax payers, including the timing of CIT on interests, rentals and royalties, CIT on guarantee income, transfer of land-use right, financial and property lease, direct and indirect transfer of equity, etc. This regulation came into effect on 1<sup>st</sup> April, 2011 and provides more detailed guidance on CIT administration on non-resident taxpayers although there are still certain ambiguities yet to be cleared.

### **New rules on deduction of asset loss in respect of CIT**

On 31<sup>st</sup> March, 2011, SAT released the “Administrative Measures on Deduction of Asset Loss of Enterprises regarding CIT”, which provides detailed rules on application, evidence, verification and documentation. The main points include application procedures, evidence for the loss and verification of the loss. The new measure was effective from 1<sup>st</sup> January 2011 retrospectively.

### Some new foreign exchange control regulations announced

The State Administration of Foreign Exchange (“SAFE”) issued a circular, Huifa [2011] No. 11, on 30<sup>th</sup> March, 2011 composed of several new regulations on the foreign exchange exposure of banks, entrepot trade, short-term foreign debt of financial institutions, advance receipts and deferred payments. One of the important points is that the general cap ratio for advance receipts and deferred payments (over 90 days) is reduced from 25% to 20%. The circular came into effect from 1<sup>st</sup> April, 2011.

### Service Highlight

If you have the feeling of being in a maze in the midst of the continuously changing regulations and requirements in China largely brought about by its fast developing economy, Sino-Bridge understands the issues you are faced with through our many years of helping our clients from America, Europe and other parts of the world to build their successful business presence in China. Please feel free to contact May Lau, our Marketing Executive at [maylau@sinobridge-consulting.com](mailto:maylau@sinobridge-consulting.com) or any advice and help you wish to have.

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