

China Business Advisory

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Updated DTA between China and the UK

A protocol was signed by representatives of China and the UK on 27 February 2013 in Beijing to update the Double Tax Treaty (“DTA”) signed by the two governments on 27 June 2011 which has, to now, not been ratified by China. This protocol reduces the rate of withholding tax on dividends from

10% to 5% if the UK shareholder holds directly at least 25% of capital of the company paying the dividends. It will come into force when the legislative procedures are completed on both sides.

News about the Tax Reform

During the routine meeting of the State Council of China hosted by Premier Li Keqiang on 10 April 2013, it was decided that the current Pilot Program of replacing Business Tax (“BT”) by Value Added Tax (“VAT”) will be expanded to the whole country from 1 August this year and some more industries will be included. Local authorities are required to do what they should to ensure that the reform moves forward steadily and to report on, follow up and deal with adequately all questions and issues encountered during the pilot program. We further recommend that tax payers who are not operating in the pilot program areas study the current reform details being implemented, follow up the updates,

analyze the business situations and prepare accordingly in their best interest.

New regulation on Tax Refund for Export of Goods and Services

Further to the updated policy of VAT and Consumption Tax refund for exported goods and services which was released in 2012 and introduced to our readers in our 2012 August Edition, a new circular, Pronouncement No. 12 of 2013, was published by State Administration of Taxation (“SAT”) on 13 March 2013 to give more detailed interpretation and guidance. The key points include:

- Changes to accommodate the revised foreign exchange control regulations regarding the tax refund of export;
- Guidance of tax treatments when tax payers shift between the two different tax refund methods (Exempt, Offset and Refund method vs. Exempt and Refund Method);
- Revision and more specific points of the procedures, documentation and requirements for tax refund application including bonded export transactions;
- Clarification of the deadline for tax refund application;
- Some regulations for anti-fraud with respect to tax refund;

This regulation will become effective from 1st April 2013 and tax payers may have to submit paper documents temporarily until all the relevant revision of the software for application is ready.

Administrative Measures on Internet Official Invoices

Official invoices (or “Fapiao”) play an important role in fiscal matters in China. A state-wide computerized system has been used for administration of VAT special invoices and local authorities are using similar systems, which vary from place to place, to administer other official invoices with the support of internet technology. SAT announced its Decree No. 30 on 25 February 2013 to release “The Administrative Measures on Internet Invoices” which regulates and unifies the administration of internet invoices including registration, issuance, data transmission and verification. This could be a prior step to adopting electronic official invoices in the future.

Getting Service Income from Tax Authorities for Withholding

According to relevant regulations, tax payers are entitled to get some service income for withholding various taxes according to the regulations, which could be 5% of the taxes withheld at the maximum. However, the practice differs from location to location and some tax payers may not even be aware of this regulation. The Beijing Local Taxation Bureau released its Pronouncement No. 1 of 2013 to give some detailed guidance in this regard which stipulates the rates according to the nature of the underlying transaction, the procedures for application, payment and return, requirements and other relevant specific matters. It will enter into force on 1 April 2013.

Service Highlight

Knowing not only the regulations and theories in China but also the practices and practicality, we have been committed to assisting our clients to solving their problems and issues legitimately and with due regulatory compliance. Should you need any help from us, please do not hesitate to contact our Marketing Executive, Ms Mary Li, on +852 3579 8745 or email her at maryli@sinobridge-consulting.com.

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