

## China Business Advisory

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### Implementation Dates for Expansion of VAT Pilot Program Announced

Following the approval by the State Council and its announcement on 25 July 2012, the Ministry of Finance (“MoF”) and the State Administration of Taxation (“SAT”) issued a joint circular dated 31 July 2012 on the following implementation dates together with the applicable rules for the expansion of the Value Added Tax (“VAT”) Pilot Program from Shanghai to 10 provinces and cities

progressively from 1 September 2012 to 1 December 2012:

- Beijing – 1 September 2012
- Jiangsu Province and Anhui Province – 1 October 2012
- Fujian Province (including Xiamen Special Economic Zone (“SEZ”)) and Guangdong Province (including Shenzhen SEZ) – 1 November 2012
- Tianjin SEZ, Zhejiang Province (including Ningbo SEZ) and Hubei Province – 1 December 2012

The joint circular confirmed that the Pilot Program rules for the abovementioned provinces and cities will be the same as those for Shanghai. With the specific implementation dates announced, businesses in these provinces and cities should start preparing for the VAT reforms. Affected businesses should, in due course, commence registration as “general VAT taxpayer” if they have not done so yet.

## **Revised Policies for VAT & Consumption Tax Refund (Exemption) for Exported Goods and Services**

MoF and SAT jointly issued Cai Shui [2012] No. 39 (“Circular 39”) on 25 May 2012 which categorizes and reorganizes the existing VAT and Consumption Tax (“CT”) policies for export of goods and services. Ensuing from this SAT issued SAT Announcement [2012] No. 24 (“Announcement 24”) on 14 June 2012 on Administrative Measures on VAT and CT Collection for export of goods and services. These two documents by and large aim at simplifying and removing inconsistency in the export tax refund process across the country, which include:

- Removing the prescribed time limits for application for export tax refund/exemption and provision of relevant outstanding documents. In the past, failure to meet the prescribed time limits would lead to the relevant exports being deemed as domestic sales subject to the general VAT laws.
- Application deadline for export tax refund extended to the period from one month following such exports to April of the following year.
- Export enterprises can select to renounce export VAT exemption and treat the underlying export as domestic sales to claim for input VAT deduction (probably when their domestic sales are dominant). No change is allowed for a period of 36 months after the renouncement.
- If imports are involved, VAT payment demand notes are required to be submitted for the application of export tax refund.

We are happy to help you to familiarize your staff with the relevant provisions in Circular 39 and Announcement 24 and understand how these provisions will affect their daily operations.

## **New Law Governing Administration of Entry and Exit of Individuals**

The 11<sup>th</sup> Standing Committee of the National People’s Congress (“NPC”) passed a new law on 30 June 2012 which governs the administration of entry and exit of individuals starting from 1 July 2013 (Order of the President No. 57). The new law will replace the existing laws implemented in the mid- 80s to mid-90s with a view to improving the existing system and implementing measures to strengthen

the enforcement of the administration of entry and exit of foreign workers.

The following measures will be introduced with the new law:

- Introducing a new “special talent” visa category aiming to attract qualified foreign professionals to work in China. Details will be formulated and announced by the State Council later.
- Qualified foreigners who are required to convert their visa for temporary stay (for not more than 180 days) to a residence permit (with minimum validity of 90 days for work-related purposes or 180 days for non-work-related purposes) can apply to the relevant entry and exit bureau without having to leave China.
- Foreigners who have outstanding contributions or qualify under other criteria can apply for Chinese “green card”. The objective is to attract talent and capital.
- The party that issues an invitation letter to a foreigner for his/her visa application will be legally responsible for the authenticity of the contents of the invitation letter.
- The new law defines a “temporary stay” visa with a maximum stay period of not exceeding 180 days. Such visa generally does not require the individual to obtain other form of permits after arrival and may be extended for a period not exceeding that granted by the original visa.
- Foreigners are required to apply for residence permits need to do so within 30 days after arrival in China.
- The new law also spells out consequences for stay in China beyond the validity of residence permit.
- There are also provisions for illegal employment of foreigners in China.

## **Rising Property Prices and Local Government Debts**

Since China embarked on stimulus spree in November 2008, state-owned enterprises bided enthusiastically in land auctions, and local governments let their pet projects run wild. Rising property prices and escalating local government debts have then preoccupied China’s central government which decided in April 2010 to put curbs on speculative home-buying and has been putting in efforts to tidy up local finances. However, both property prices and local-government borrowing are still on the rise.

Yet according to the comments from The Economist newspaper on 28 July 2012, the increases may not require so much worry since the increase in property prices is more likely to be caused from the lack of opportunity for investors to invest their savings rather than greedy investors who borrow heavily to speculate for short term profit. Moreover, the combined debts of China's central and local governments add up to only about 50% of the country's GDP and based on the analyses by a Chinese investment bank, local governments are borrowing less and investing better than they did in the previous stimulus effort.

## Service Highlight

Gaining full understanding of the principles and rationales behind the regulations, especially in the ever-changing regulatory environment in China, is a must to be regulation compliant and mitigate relevant risks. We have been helping our clients to this direction with our experience in China. For any assistance or help from us, please feel free to call Ms Mary Li, our Marketing Executive, on +852 3579 8745 or email her at [maryli@sinobridge-consulting.com](mailto:maryli@sinobridge-consulting.com).

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