

China Business Advisory

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2. Service Highlight

VAT Concession for Chemical Fertilizers Withdrawn

Since the 1990s, the Chinese government had granted Value Added Tax (“VAT”) concession for domestic trading and import of certain chemical fertilizers for the development of the agricultural industry. However, with due regard to significant

changes to the market and regulatory environment, especially the excessive production and over-use of chemical fertilizer in China, and in order to boost the use of environment-friendly organic fertilizers to achieve sustainable development of the agricultural industry, Ministry of Finance (“MOF”), General Administration of Customs (“GAC”) and State Administration of Taxation (“SAT”) jointly issued a circular, Caishui [2015] No. 90, on 10th August 2015 to abolish these concessions and subject domestic trading and import of chemical fertilizers to VAT at the rate of 13%. This regulation will take effect from 1st September, 2015.

WHT on Interest Paid to Overseas Branches of Chinese Banks

According to the regulation issued by SAT in 2008 (Guishuihan [2008] No. 955), loan interest paid by domestic companies to overseas banks, even overseas branches of Chinese banks, is subject to Withholding Tax (“WHT”). Yet, Guoshuihan [2010] No. 266 stipulates that interest income of an overseas branch of a Chinese bank has to be consolidated with that of the headquarters in China for tax purpose since it is the income of a resident entity in substance as the overseas branch is not an

independent legal entity. These resulted in the subject interest income being taxed twice unless full tax credit could be claimed.

To address this, SAT issued its Announcement No. 47 on 19th June, 2015 to provide that WHT will not be levied on interest income paid to an overseas branch of a resident Chinese bank that has substantial entitlement to it and consolidates such income into the income of the Chinese resident bank.

This circular became effective from 19th July, 2015 to supersede the key provisions of Guishuihan [2008] No. 955.

Specific Guideline for Preferential CIT Treatment in Qianhai

Qianhai Shenzhen-Hong Kong Modern Services Industry Cooperation Zone (“Qianhai”) in Shenzhen City is one of the four special areas (Qianhai, Pingtan, Hengqin and Western Area) in China where the preferential Corporate Income Tax (“CIT”) rate of 15% is applied to eligible enterprises. Further to the Circular – Caishui [2014] No. 26, which was issued by SAT and MOF jointly in March 2014 to stipulate the industries eligible for the preferential CIT rate of 15% in Qianhai, Pingtan and Hengqin, the local authority in Qianhai gave its specific guideline for its implementation on 14th July, 2015.

According to this guideline, enterprises can file for their CIT returns based on their own judgement of their eligibility. If the local Tax Authority has doubts on whether the main business of any enterprise falls into the industries listed in Caishui [2014] No. 26, it will request the tax payer to apply for an assessment certificate from the local Administration Bureau for it to determine whether or not the enterprise is entitled to the CIT rate of 15%. This local regulation will be in force for 5 years from 1st August, 2015.

Progress of Simplifying Company Registration Procedures

Further to our previous report on the simplification of company registration procedures which

reflects the considerable efforts of the Chinese government to mitigate the administrative burden of enterprises, we advise our CBA readers that 6 government departments under the State Council jointly issued a notice on 7th August, 2015 (“the Notice”) to give practical information on the combination of the Business Licence, Tax Registration Certificate and Organization Code Certificate. It spelled out the new procedures and documents to be adopted from 1st October, 2015.

In the meantime all the relevant government departments are effecting the necessary changes to their systems, work flows and documentation and attending training sessions to ensure due implementation of the provisions of the Notice which also carries detailed instructions on how to fill in the new application and templates for documents required to go with it.

Service Highlight

The Chinese government has been furthering its efforts to improve the business environment in China to attract foreign investors. We are there to assist you to leverage these serious initiatives of the Chinese government for the success of your operation in this nation with our consulting experience in this market for over two decades. Please do feel free to contact our Marketing Executive, Ms. Yannes Lam, on (852)3579 8745 or at yanneslam@sinobridge-consulting.com for any advice you may need.

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