

China Business Advisory

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TABLE OF CONTENTS

1 China Updates

- ✚ Release of New Directory of Investment Projects Requiring Government Approval
- ✚ Corporate Income Tax Policies Released for Shanghai Pilot Free Trade Zone
- ✚ China Expands VAT Reform to Railway Transportation and Postal Service Industries
- ✚ Announcement on Value-Added Tax and Consumption Tax on Export Goods and Services Released

2 Sino-Bridge Service Highlight

Release of New Directory of Investment Projects Requiring Government Approval

After the promulgation of the previous Directory of Investment Projects Requiring Government Approval in 2004, the Economic environment and market conditions of China has changed a lot. To further deepen the reform of approval

system to facilitate investments, the State Council released the new Directory of Investment Projects Requiring Government Approval on 2nd December 2013 to reduce the need of certain investment projects to seek approval of government and decentralize the approval authority to local governments or lower level government departments, allowing the market to play a more significant economic role. This new directory, taking effect on the day it was released, covers the following important points:

- 49 approval authorities are cancelled, delegated or transferred from the central government level. Among them, the previous approval requirements for 19 items are now changed to recordal procedures. Approval authorities for 20 items were delegated to local governments and 10 items to industrial management departments. Compared to the earlier Directory, the number of investment projects that must be reported to the central government for approval will be reduced by about 60%;
- For foreign investment projects, the approval authorities are delegated to provincial/local government for projects falling in the encouraged category under the "Catalogue for the

Guidance of Foreign Investment Industries" and of a total investment size of less than US\$300 million. Besides, restricted projects related to real estates and other projects of a total investment size of less than US\$50 million will not need to be approved by the central government either.

Corporate Income Tax Policies Released for Shanghai Pilot Free Trade Zone

China's Ministry of Finance and the State Administration of Taxation ("SAT") jointly issued the "Circular on Corporate Income Tax Policies for Outbound Investment with Non-monetary Assets and Other Asset Restructuring Transactions by Enterprises in the China (Shanghai) Pilot Free Trade Zone", Caisui [2013] No. 91 ("the Circular"), on 15th November 2013, which allows enterprises in the Shanghai Pilot Free Trade Zone ("FTZ") to defer Corporate Income Tax ("CIT") payment.

The Circular provides that CIT on gains from asset restructuring activities, such as outbound investment with non-monetary asset by the enterprises registered in Shanghai Pilot FTZ, can be paid by installments within five years. If the enterprise however disposes of the investment within 5 years, the CIT payment schedule will be adjusted. This Circular is seen to be a more favourable policy in that it lifts certain limitation of original policy on special restructuring.

China Expands VAT Reform to Railway Transportation and Postal Service Industries

The executive meeting of China's State Council chaired by Premier Li Keqiang in early December 2013 decided that China will expand its reform of Value-Added Tax ("VAT"), i.e. replacing business tax ("BT") by VAT, to the railway transportation and postal service industries. SAT issued "Circular on Incorporating Railway Transportation and Postal Service Industries into ongoing Value-Added Tax reform", Caisui [2013] No. 106 ("the Circular"), on 12th December 2013. The Circular, with

updates to relevant regulations released previously, is scheduled to take effect on 1st January 2014. After the expansion, the entire transportation industry will be covered by the VAT reform.

It is worth noting that the Circular stipulates the applicable VAT rate for Railway Transportation and Postal Service Industries to be 11% while their current BT rate is 3% of the turnover. It may increase the tax burden to these two industry service providers. However, the VAT paid by these two industry service providers will bring deductible input VAT for downstream industries, thereby benefiting industries which need a significant amount of rail transport and other commercial services. For the whole national economy, the reform is seen to be positive. According to the relevant authority, the widening VAT reform had benefited 2.47 million taxpayers as of October 2013. It is expected that tax reduction for the whole year may exceed 120 billion Yuan.

Announcement on Value-Added Tax and Consumption Tax on Export Goods and Services Released

China's State Administration of Taxation released the "Announcement on Issues concerning Value-Added Tax and Consumption Tax on Export Goods and Services (Announcement [2013] No. 65, hereinafter referred to as 'the Announcement')" on 13th November 2013, which clarifies certain issues related to VAT and Consumption Tax on export goods and services. The Announcement, scheduled to take effect on 1st January 2014, deals with the following points:

- Simplify and speed up the tax refund (exemption) process for the enterprise who applies for deregistration due to merger, restructuring or reorganization.
- Allow enterprises engaged in processing of imported material to adopt the most recent actual allocation rate for tax exemption and refund calculation or an estimated one with justifiable reasons put to the tax authority under certain circumstances.
- Define valid evidence, such as sales confirmation from auction-company, for special purchase for export.
- Let enterprises choose to have their export products fall into the zero-rated VAT category or claim the exemption status, on condition that such a choice will have to be maintained for at

least 36 months.

- Goods and service sold to special zones such as Export Processing Zones, Bonded Logistics Parks, Bonded Harbor Zones, Integrated Bonded Zones, Zhuhai-Macau Cross-border Industrial Zone, etc. could be denominated and settled in RMB.
- Further simplify tax filing procedures for export goods and services which are exempt from VAT.

Service Highlight

The Chinese government has taken a lot of effort in most recent years to improve the investment environment and reform the governmental systems including the tax, foreign exchange control, customs administration and other regulatory areas. Many policies and regulations have been released or revised and more are expected to come to support all the reforms and their implementation to facilitate doing business in China. We are more than pleased to provide you with necessary assistance to understand and be compliant with them to enhance your further success in China. Whenever you see any need for help, please do not hesitate to contact our Marketing Executive, Ms. Yannes Lam, on +852 35798745 or email her at: yanneslam@sinobridge-consulting.com.

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