

# China Business Advisory

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## Application of Preferential Policies on Corporate Income Tax

On 12<sup>th</sup> November 2015, the State Administration of Taxation (“SAT”) promulgated some measures for the application of Preferential Policies on Corporate Income Tax (“CIT”) (the “Measures”) applicable for 2015 and after.

The key points of the Measures are:

- ✓ Enterprises shall judge on their own whether they are entitled to benefits from the preferential tax policies;
- ✓ Enterprises shall report to tax authorities as of the year when they begin to enjoy the tax benefits and need to do it again only when their situation changes resulting in the relevant tax benefits being inapplicable;
- ✓ Enterprises enjoying tax preferences illegitimately shall be subject to fines and penalties in addition to due repayment of the relevant taxes

## **Opportunities for foreign investors from Reforms on China SOEs**

China is planning to launch pilot reforms on State-Owned Enterprises (SOEs) in 10 areas, in 2016, including ownership and executive hiring policy.

According to a senior officer of China government at the briefing press, the reforms will cover, among others, functions and powers of directors, professional managers, investment, mergers and acquisitions, information disclosure. The reforms are part of an SOE guideline issued in September to turn them into fully independent market entities with major reform in key areas by 2020, when SOEs are expected to be more robust and have greater ability to manage risks.

China has about 150,000 SOEs, which hold over 100 trillion yuan (US\$15.5 trillion) in assets and employ more than 30 million people. Any reform to the sector will have a significant effect on the economy as a whole.

SOEs enjoy many favorable treatments such as direct subsidies, concessionary financing, State-backed guarantees, preferential regulatory treatment, exemptions from antitrust enforcement and bankruptcy rules. They can be more easily listed in stock market and take up more than 80 percent of bank loans. Despite all these, their efficiency is always questionable.

In these lights, China has been pressing ahead with plans to expand mixed ownership of State-owned enterprises to boost economic efficiency. In the long run, it is expected that roughly 50 percent of China's SOEs could be opened for mixed ownership. This could lead to some large SOEs, which have traditionally held monopolies in many strategic industries, forming joint ventures using non-State capital. Hence, overseas enterprises could be presented with unprecedented opportunities to enter key industries blocked to private investors as well as others of general commercial nature.

## Import and Export Tariffs to Be Adjusted in 2016

The Customs Tariff Commission of the State Council has recently deliberated and adopted the Tariff Adjustment Proposal for 2016 (the "Proposal"), and submitted the same to the State Council for approval to adjust the import and export tariffs in part from 1<sup>st</sup> January, 2016.

In brief, if the Proposal secures the approval from the State Council, import duties for some consumables and industrial products will be reduced by the way of implementing temporary tariff rates and certain commodities for exportation will attract lower tariffs while others could fall outside the scope of export tariff altogether.

## Service Highlight

China has managed to sustain strong and long time economic growths and is still one of the most attractive markets to investors in other parts of the world. With more than two decades of dedicated operation in China, Sino-Bridge is in a privileged position and keen to help investors to exploit their full potentials from their business presence in China. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) to learn of what we could do for you to this end.

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