

# China Business Advisory

2018 Issue 12

December 2018



## TABLE OF CONTENTS

### 1. China Updates

- ✧ Further Clarification regarding Transitional Matters Concerning Tax Collection and Administration for the All-round Enforcement of the Latest Individual Income Tax Law
- ✧ Relaxation of Regulations regarding Cross-Border E-Commerce Retail Imports
- ✧ New Tax Exemption on Interest Income earned by Overseas Institutions in China Bond Market

### 2. Service Highlight

## Further Clarification regarding Transitional Matters Concerning Tax Collection and Administration for the All-round Enforcement of the Latest Individual Income Tax Law

As introduced in our last issue, China has enacted and issued several tax laws and regulations regarding the

new Individual Income Tax Law ("IIT"). On 19<sup>th</sup> December 2018, State Administration of Taxation ("SAT") released Guo Shui [2018] No.56 on Several Transitional Matters Concerning Tax Collection and Administration for Fully Enforcing IIT (the "Announcement") to further clarify the transitional arrangements concerning tax collection and administration of IIT.

The key points of the Announcement are as followings:

The Announcement states that IIT on income from wages and salaries received by residents will be regularly withheld and paid in advance on an accumulation basis, while the IIT on income from personal services, author's remuneration and royalties will also be withheld and paid in advance according to the existing rules. At the same time, the Announcement also includes the related rates.

The withholding agent has to declare and pay IIT in advance for the residents' wages and salaries, personal services, author's remuneration and royalties fee on monthly basis. If the totaled amount of advanced tax payment for a year is different from the annual IIT payable, the residents are responsible to undertake annual IIT declaration during the period from 1<sup>st</sup> March to 30<sup>th</sup> June in the following year.

If the annual income exceed the IIT withheld and paid, the residents should pay for the underpaid IIT, otherwise overpaid IIT will be refunded.

The main objective of adopting accumulated method for calculating IIT is the resident do not need to undertake annual IIT declaration if his only source of income is the salary from his employer(s).

For non-resident individuals, the tax payable will be calculated, withheld and paid pursuant to provisions of the applicable IIT law.

According to the Announcement, the amount of monthly taxable income from wages and salaries received by a non-resident individual shall be the balance after CNY5,000 expenses deduction; the amount of taxable income from remuneration for personal services, income from author's remuneration and income from royalties shall be the amount of income received.

In addition, the "five-year" exemption rule on foreign income will be replaced by "six-year" and there are discussions to discontinue certain tax concessions for foreign employees, all these will present complications which should be taken into consideration when designing remuneration package of foreign employees and is likely to result in additional costs for the employers.

The Announcement becomes effective from 1<sup>st</sup> January 2019.

Sino-Bridge will further follow up potential issues and new Laws and Regulations to be issued and provide you with updated news and analyses.

## **Relaxation of Regulations regarding Cross-Border E-Commerce Retail Imports**

On 20<sup>th</sup> November 2018, Ministry of Finance (“MOF”) and various authorities jointly released announcement No.157 [2018] on Adjustment of the List of Cross-Border E-Commerce Retail Imports (“Announcement”). On 29<sup>th</sup> November 2018, MOF, General Administration of Customs (“GAC”) and SAT jointly released Cai Guan Shui No. 49 [2018] on Improvement of Tax Policies on Cross-Border E-Commerce Retail Imports (“Circular”). Both the Announcement and the Circular becomes effective from 1<sup>st</sup> January 2019 for encouraging healthy growth of cross-border e-commerce retail imports and create market environment for fair competition.

The Circular clarified the rights and responsibilities of the parties involved in cross-border e-commerce retail importation which will be regulated as “imported articles for personal use”. Corresponding goods imported may not be re-sold in China and “online purchase with tax exemption and offline collection business is strictly prohibited outside the special zones supervised by Customs.

The Announcement and Circular introduce the following changes on the limits for imports transactions and taxable items are listed below:

Items compared	Before 1 January 2019	From 1 January 2019
Single transaction limit	RMB 2,000	RMB 5,000
Annual transaction limit	RMB 20,000	RMB 26,000
A commodity whose value exceeds the single transaction limit but does not exceed the annual transaction limit	Regulated as general trade	Subject to tax at the rate applicable to goods imported through cross-border e-commerce channels
A commodity whose value exceeds the annual transaction limit	Regulated as general trade	Regulated as general trade
Number of taxable items in the list	1258 taxable items	63 new taxable items added, bringing the total number to 1321

Relevant provisions in Cai Guan Shui No.18 [2016] released by MOF, GAC and SAT will apply for other matters not mentioned in the Circular.

## **New Tax Exemption on Interest Income earned by Overseas Institutions in China Bond Market**

On 7<sup>th</sup> November 2018, MOF and SAT jointly release Cai Shui No. 108 [2018] on Exemption of Corporation Income Tax (CIT) and Value Added Tax (VAT) for Overseas Institutions Investing in Domestic Bond Market (the “Circular”). The Circular grant exemption from CIT and VAT for China-sourced bond interest derived by overseas institutional investors from 7<sup>th</sup> November 2018 to 6<sup>th</sup> November 2021.

The objective of the Circular is to promote opening-up of the China bond market. This temporary CIT and VAT exemption policy will not apply to interest income obtained by institution or

establishment set up in China by an overseas institution if such income has an actual connection with the China institution or establishment.

## Service Highlight

China continues to attract investors from all over the world as it is fast emerging as one of the largest markets. While continuous effort is put in to improve and simplify China's domestic regulations and administrative processes, it is important that investors are up to date with the changes and can adapt to them accordingly. Sino-Bridge is always well prepared and pleased to help investors to realize their full potential. Our Marketing Executive, Ms. Rika Wong, looks forward to hearing from you at (852) 3579 8745 or [rikawong@sinobridge-consulting.com](mailto:rikawong@sinobridge-consulting.com) for any assistance and support we could provide you with.

## Our China Investment Business Advisory Team

### Hong Kong

Room 1318, 13/F, Austin Tower, 22-26 Austin Avenue,  
Tsim Sha Tsui, Kowloon, Hong Kong

### Guangzhou

Room 16A02, 16/F, Vili International, 167 Linhexilu, Tianhe  
District, Guangzhou, 510620, PRC

### Shanghai

Room 30A, 30/F, World Plaza, No.855, South Pudong  
Road, Pudong New Area, Shanghai, PRC 200120

### Lyon Odiceo

115 Boulevard Stalingrad – BP52038,  
69616 Villeurbanne Cedex, France

**Website:** [www.sinobridge-consulting.com](http://www.sinobridge-consulting.com)

**E-mail:** [info@sinobridge-consulting.com](mailto:info@sinobridge-consulting.com)

**Telephone:** (852) 3579 8745

**Hong Kong**

**Guangzhou**

**Shanghai**

**Lyon**

For any enquiries, please contact Ms. Rika Wong, Marketing Executive: [rikawong@sinobridge-consulting.com](mailto:rikawong@sinobridge-consulting.com) Tel: (852) 3579 8745