

China Business Advisory

2014 Issue 2

February 2014

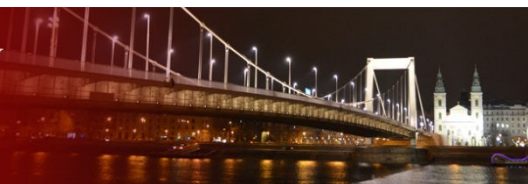


TABLE OF CONTENTS

1. China Updates

- ✧ Update on Business Registration Reform
- ✧ Provision of Labour Dispatch
- ✧ Clarification on Inventory Losses for Retail Business

2. Service Highlight

Update on Business Registration Reform

The State Council issued announcement on the plan of Business Registration Reform, Guofa [2014] No. 7 on 18th February 2014. Key features of the announcement are as follows:

- Loosen/relax the policy of minimum registered capital requirements for incorporation of limited liability companies (RMB30K), one-person limited liability companies (RMB100K) and public listed companies (RMB5M). The existing regulated contribution period by the shareholders will be no longer in force;
- The annual inspection system will be replaced by the annual reporting system;
- Requirements on registration location will be more relax;
- The local governments will issue further implementing rules in this regard;
- Electronic business license registration system will be promoted widely.

This business registration reform will not be applicable to 27 categories of businesses such as banking, finance lease, securities and futures. And it is expected that more detailed rules for specific implementation will be released by the authorities shortly.

Provision of Labour Dispatch

The Ministry of Human Resources and Social Security (“MHRSS”) issued provisional regulations on labour dispatch, MHRSS Order [2014] No. 22, which will become effective from 1st March 2014.

The key points are:

- Further clarification that a labor dispatch arrangement is meant to serve supplementary purposes which are temporary (for periods not exceeding 6 months), auxiliary (to support the core business) and substitutive (arrangement for temporary absences of employees) in nature. When determining “auxiliary” positions, plan and suggestions should be discussed with trade union and will be subject to mutual agreements;
- The number of dispatched staff should not exceed 10% of the total number of staff which includes the staff who have signed the employment contract with the Host Company directly and staff who are working under labour dispatch;
- The Dispatch Company that dispatches staff under cross-region labour dispatch should be locally responsible for contributions to the social security funds relevant to the dispatched staff. If the Dispatch Company does not have a branch in the region where the Host Company is located, the Host Company will be responsible for the necessary contributions on behalf of the Dispatch Company;
- As a transitional concession, Host Companies whose number of dispatched staff exceeds 10% of the total number of staff should make arrangements to meet the statutory requirements before 1st March 2016. For dispatched contracts executed prior to 20th December 2013 which will expire after 1st March 2016, they may continue until their expiry dates but the Host Company has to file proposal to the Labour Bureau as to how and when they are going to be compliant. The Host Company is prohibited from engaging additional dispatched staff until the percentage of dispatched staff falls below the maximum percentage allowed.

Companies who have such labour dispatch arrangement need to review the employment situation and take proper actions to maintain compliance.

Clarification on Inventory Losses for Retail Business

Further to the State Administration of Taxation (“SAT”) Announcement [2011] No. 25 “Administrative Measures on Deduction of Asset Loss of Enterprises regarding Corporate Income Tax (“CIT”)”, The SAT issued Announcement [2014] No. 3 (“Announcement 3”) on 10th January 2014 clarifying some specific issues for Retail Business, among which is about the categories of inventory losses and the filing requirements for such losses to claim for tax deduction. The key stipulations on this point include:

- Any inventory losses which were caused by sporadic theft, scrap, obsolesces, expiry, damages, rat bite and return of products from customer, etc. will be normal inventory losses for which a report with analysis and summarised details for such losses for CIT purposes needs to be prepared and submitted;
- Any inventory losses which were caused by accidents occurring during transportation and storage, storm, fire, earthquakes, other natural disasters, etc. will be abnormal inventory losses for which should an item-by-item report needs to be prepared and submitted for CIT purposes;
- Special reporting will be required for CIT purposes for any single inventory loss which exceeds RMB5 million regardless of the cause for it.

Since the CIT Annual Filing deadline is approaching fast, tax payers in retail industry are recommended to study this document in detail and file for the relevant reports in good time to avoid paying unnecessary taxes.

Service Highlight

The Chinese government has put strenuous efforts lately to improve the investment environment in China through reforms in many keys areas including business registration, tax, foreign exchange control and customs administration.

To this end many new policies and regulations have been released and old ones revised. More are expected to come to facilitate doing business in China. We are more than pleased to discuss with you how to leverage these positive measures to enhance your business success.

Our Marketing Executive, Ms. Yannes Lam, who can be reached at (852) 3579 8745 and yanneslam@sinobridge-consulting.com, looks forward to hearing from you.

Our China Investment Business Advisory Team

Hong Kong

Room 2301-02, 23/F, Prosperity Center,
25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong

Shanghai

Room 17B, 17/F, World Plaza, No.855, South Pudong
Road, Pudong New Area, Shanghai, PRC 200120

Guangzhou

Room 1601D02, 16/F, Vili International, 167 Linhexilu,
Tianhe District, Guangzhou PRC 510000

Lyon Odiceo

115 Boulevard Stalingrad – BP52038,
69616 Villeurbanne Cedex, France

Website: www.sinobridge-consulting.com

E-mail: info@sinobridge-consulting.com

Telephone: (852) 3579 8745

Hong Kong

Guangzhou

Shanghai

Lyon

For any enquiries, please contact Ms. Yannes Lam, Marketing Executive: yanneslam@sinobridge-consulting.com Tel: (852) 3579 8745