

# China Business Advisory

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### 2. Service Highlight

## Further Update on Forms for CIT Annual Return

At the end of 2014, State Administration of Taxation (“SAT”) came up with a full set of revised forms for the annual return for Corporate Income Tax (“CIT”) for normal enterprises to adopt a more structured, detailed and scientific approach for tax filing (our CBA December 2014 Issue referred). Since then, to foster a more favourable business operating environment the government has released some additional preferential policies such

as preferential tax rates for small businesses, accelerated depreciation for certain industries and tax concession for transfer of rights of use of non-exclusive technology. To cater for these, SAT promulgated an updated version of such forms on 18<sup>th</sup> January 2016 for 2015 CIT annual returns and beyond. The affected forms include:

No.	Code	Form Name
1	A000000	Basic Information of Enterprises
2	A105081	Details of Accelerated Depreciation of Fixed Assets and Deductions

3	A107020	Details of Taxable Income Reduction/Exemption Concessions
4	A107030	Details of Deduction against Taxable Income
5	A107040	Details of CIT Reduction/Exemption Concessions
6	A105050	Details of Tax Adjustments on Employee Remuneration
7	A105070	Details of Tax Adjustments on Donations
8	A105120	Details of Tax Adjustments on Provisions of Special Industries
9	A107041	Details of Preferential treatments for High- and New-technology Enterprises

## **New Administrative Measures on Qualification of High- and New-technology Enterprises**

A revised regulation to confer the qualification of high- and new-technology enterprises, which could bring tax incentives to tax payers, was jointly issued by SAT, Ministry of Science and Technology (“MOST”) and Ministry of Finance (“MOF”) on 29<sup>th</sup> January, 2016. This updated circular, Guokefahuo [2016] No. 32, gave detailed update on the recognition criteria and documentation requirements for the conferment of such qualification. In general, the authorities relaxed the recognition criteria but strengthened the documentation requirements. It is mentioned in this regulation that more detailed guidance is yet to be issued. We would like to remind CBA readers to stay tuned for this to assess its impacts on them. We will follow up closely on the further development and update you accordingly.

## **Further Tax and Levy Exemptions and Lesser Administrative Burdens**

The Chinese government has been striving to keep enhancing the business operating environment in recent years, especially for small businesses. Two recent moves in this direction are SAT Announcement [2016] No. 6 and Caishui [2016] No. 12 issued jointly by SAT and MOF. The key benefits for the relevant enterprises are summarized as below:

- Under SAT Announcement [2016] No. 6, taking effect from 1<sup>st</sup> April, 2016
  - Small-scale Valued Added Tax (“VAT”) Payers are allowed to file for VAT and Consumption Tax on a quarterly basis. These tax payers can also choose not to apply this new rule then the Tax Authority in-charge will specify a filing period;
  - No filing is required for the quarter if no tax is payable;
  - Eligible small businesses could file for CIT prepayment on a quarterly basis;
  - For certain small tax payers, the payment of taxes and levies could be deemed to have already fulfilled the tax return obligations.
- Under Caishui [2016] No. 12, coming into force on 1<sup>st</sup> February, 2016, tax payers whose monthly taxable sales or revenue is no more than RMB100,000 (compared to RMB30,000 previously), or whose quarterly taxable sales or revenue is no more than RMB300,000 (compared to RMB90,000 previously) for those allowed to file for VAT quarterly, are exempt from levies for Education Surcharge, Local Education Surcharge and Water Construction Fund.

## **12 Additional Pilot Cross-border E-commerce Areas Approved**

Further to the Cross-border E-commerce Comprehensive Pilot Area established in 2015 in Hangzhou, Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen and Suzhou were approved by the government to be pilot cross-border e-commerce areas too in January 2016.

This is the latest endeavor of the Chinese government to face up to the high speed growth of the e-commerce sector with activities spanning across virtually the whole country. Local governments in these cities will take the lead in establishing creative administrative measures and standards in different respects covering, for instance, customs clearance, foreign exchange control, payment, logistics, inspection and quarantine. It is expected that specific implementation plans will be announced by local governments at their respective pace.

## **Debut of a Local IIT Regulation on Equity Incentive of Non-listed Companies**

While there are a series of circulars in China to regulate Individual Income Tax (“IIT”) issues of equity incentive of listed companies, non-listed enterprises could be subject to varying and, at times, aggressive tax practices in different locations in the absence of similar authoritative promulgations against the trend that small and medium-sized companies have increasingly been leveraging equity incentive as an important tool to motivate employees, particularly middle to senior management staff.

We are pleased to notice that Local Tax Bureau of Hainan Province issued a letter, Qiongdishuihan [2015] No. 1151, on 10<sup>th</sup> December 2015 to give clear and rational guideline on this. It specifies that taxable income derived from equity incentive is the difference between value of exercised shares, based on the net asset value in the last audited annual report, and the exercise price paid by employees. This income will be taxed as “salaries and wages” and the tax become payable at the date of the right under the equity incentive plan being exercised. The income could however be divided by the number of months, subject to a cap of 12, the employee has worked for the company in China from the point of his entitlement under the equity incentive plan. This local regulation could become a practical reference for other areas.

## **Clarification of VAT Issues of Finance Lease Business**

Finance lease was integrated into the B2V (Business Tax to VAT) Reform in 2012 and since then some tax issues arose due to its particular nature and operation. SAT has been listening to various local authorities leading to the promulgation of circulars to make VAT administration in this regard consistent and certain. Further to the one we introduced in our last CBA edition regarding Stamp Duty on finance lease business, we would like to share with you in this edition SAT Announcement [2015] No. 90 which was released on 22<sup>nd</sup> December 2015. The key provisions are:

- Tax payers engaging in leaseback business of tangible movable assets of a financing nature could deduct the principal amount specified in a lease contract when calculating income of the relevant period. In case such an amount is not specified in the contract or there is no contract, the actual principal paid would be deducted;
- Factoring arrangements, where the lessor transfers its receivables under finance lease arrangements to financial institutions, will not change the business relationship between lessor and lessee for VAT purpose.

The above regulation became effective from 1<sup>st</sup> February 2016 and is expected to provide nationwide consistent treatment of VAT for finance lease industry.

## Service Highlight

Although the official Chinese New Year holidays ended on 14<sup>th</sup> February, the joyous atmosphere is still everywhere in the whole country. As a tradition, we rejoice over the Chinese New Year Festival until the finish of lunar January (8<sup>th</sup> March, 2016 for this year). Sino-Bridge would like to share our joy with CBA readers and wish you all a healthy and prosperous Year of the Monkey! To mark a great beginning of the year ahead, our Marketing Executive, Ms. Kimme Chan, would very much look forward to hearing from you at (852) 3579 8745 or [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) for any assistance or support we could provide you with.

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