

# China Business Advisory

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### 2. Service Highlight

## China to Rationalize Tax Incentive Policies in Line with Market Economy Practices

Recently, the State Council has issued Guo Fa [2014] No. 62 (“the Announcement”) to formalize and rectify, at area level, tax incentive policies to make China a more open,

competitive and orderly market economy, in line with the spirit of the 18<sup>th</sup> National Congress of Communist Party of China (“CPC”) to deepen the ongoing reforms.

In essence, the Announcement demands every government unit to examine and assess incentive schemes put up by themselves with a view to abolishing those in violation of the laws of China. Schemes considered to be in conformity with the laws and worthy of preservation have to go to the State Council for formal approval.

It can be expected that more rigorous management on tax incentive schemes will be put into force, leading to authority of devising tax incentive schemes to be restricted and stricter regulations to be imposed on collection of fees and/or charges other than tax revenues. And in the long run more effective management measures will be established for:

- Regular evaluation of tax incentive schemes;
- Exit mechanism for tax incentive schemes;
- Monitoring and appraising local government officials on managing tax incentive schemes;
- Enhancing transparency of information disseminated to the public; and
- Officials accepting responsibilities for their acts.

## **Easing Investment Rules in Designated Free Trade Zones (“FTZs”)**

The Standing Committee of the National People’s Congress (“NPC”) has resolved, on 28<sup>th</sup> December, 2014, to revise regulations in relation to administrative approvals in designated FTZs.

On the strength of this resolution, foreign companies need not seek government approvals for the following acts in the designated FTZs:

- Setting up ventures;
- Shutting down ventures;
- Merging ventures; and
- Changing the business scope of ventures.

The only requirement is for them to report their business plans to the relevant authorities. This preferential policy to some extent conflicts with certain provisions of the current laws and regulations governing Foreign Invested Enterprises and therefore has to be endorsed by NPC.

The designated free trade zones comprise certain locations in Guangdong Province, Fujian Province and Tianjin Municipality, in addition to the first FTZ in Shanghai. The revised regulation will come into effect in March 2015.

## **Online Approval System for Investment Projects**

In a move to further streamline administrative approvals and regulate intermediary services, China has come up with a tentative timetable to establish an online system for the approval of investment projects in the Country. On 29<sup>th</sup> December, 2014, the State Council released a circular stating that an online platform will be put in trial operations by the end of 2015 to keep track of the approval process for investment projects on a real time basis.

Experts will review the current approval requirements, agency services, laws and regulations with the objective of making recommendations on retaining, merging, or abolishing any of these they consider appropriate to the Legislative Affairs Office of the State Council and the relevant departments by the end of January 2015.

## **Series of Reforms in favour of Startups and Small Businesses**

Last February, the State Council had announced a reform on business registration in favour of startups, by removing previous requirements on minimum registered capital and simplifying complicated approval procedures. The rules took effect in March 2014, and it was reported by 8<sup>th</sup> December, 2014 more than 2.8 million new companies were established, i.e. a year on year increase of 54 percent.

In attempts to relieve their financial burden, the State Council has recently resolved to:

- Abolish or suspend certain administrative levies on small businesses (Cai Shui [2014] No. 101) which became effective on 1<sup>st</sup> January, 2015; and
- Exempt eligible small businesses from contributing to certain development funds including Education Surcharges (Cai Shui [2014] No. 122) for a three-year period up to 31<sup>st</sup> December, 2017.

## Service Highlight

The recent bulletins have outlined the escalating efforts of the Chinese government to create for investors a better business environment in China. With our experienced consulting teams in China, we are geared to help investors to cope with any challenges along their way to reap the benefits offered by current Chinese government. Our Marketing Executive, Ms. Yannes Lam, would be pleased to hear from you to this end and beyond on (852) 3579 8745 or at [yanneslam@sinobridge-consulting.com](mailto:yanneslam@sinobridge-consulting.com).

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