

China Business Advisory

2011 Issue 7

July 2011



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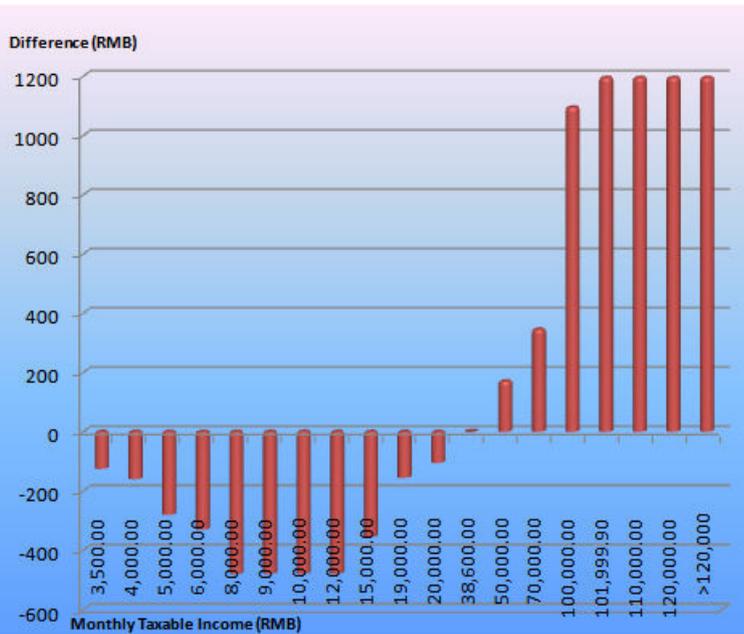
2 Sino-Bridge Service Highlight

New Individual Income Tax (“IIT”) Law enacted

Readers of our earlier issues this year should be well aware of the public discussions and debates on amendments to the Individual Income Tax (“IIT”) contemplated by the Chinese government for a period of time. The amendments were finally enacted on 30th June and to come into effect on 1st September, 2011.

The new law primarily impacts the amount of taxable income of Chinese citizens and time allowed for the monthly filing. As previously pointed out and illustrated below, people in the lower monthly income brackets (less than RMB38,600) will pay less tax while higher income earners (monthly income being higher than RMB38,600) will pay more. To now, there is no change to personal allowance for expatriates although it may be adjusted through Implementation Rules at a later stage.

| Taxable Monthly Income (Local Staff) | Old IIT | New IIT | Difference |
|--------------------------------------|------------------|------------------|-----------------|
| 3,500.00 | 125.00 | - | -125.00 |
| 4,000.00 | 175.00 | 15.00 | -160.00 |
| 5,000.00 | 325.00 | 45.00 | -280.00 |
| 6,000.00 | 475.00 | 145.00 | -330.00 |
| 8,000.00 | 825.00 | 345.00 | -480.00 |
| 9,000.00 | 1,025.00 | 545.00 | -480.00 |
| 10,000.00 | 1,225.00 | 745.00 | -480.00 |
| 12,000.00 | 1,625.00 | 1,145.00 | -480.00 |
| 15,000.00 | 2,225.00 | 1,870.00 | -355.00 |
| 19,000.00 | 3,025.00 | 2,870.00 | -155.00 |
| 20,000.00 | 3,225.00 | 3,120.00 | -105.00 |
| 38,600.00 | 7,775.00 | 7,775.00 | - |
| 50,000.00 | 11,025.00 | 11,195.00 | 170.00 |
| 70,000.00 | 17,425.00 | 17,770.00 | 345.00 |
| 100,000.00 | 28,825.00 | 29,920.00 | 1,095.00 |
| 101,999.90 | 29,624.96 | 30,819.96 | 1,195.00 |
| 110,000.00 | 33,225.00 | 34,420.00 | 1,195.00 |
| 120,000.00 | 37,725.00 | 38,920.00 | 1,195.00 |
| >120,000 | | 1,195.00 | |



Old IIT Rate Table (in RMB)

New IIT Rate Table (from Sep 1st, 2011 in RMB)

| Bracket | Monthly Taxable Income | Rate | Bracket | Monthly Taxable Income | Rate |
|---------|-----------------------------------------------------------------------------|------|---------|-----------------------------------------------------------------------------|------|
| | Threshold (expatriate): 4800 Threshold (local staff): 2000 | | | Threshold (expatriate): 4800 Threshold (local staff): 3500 | |
| 1 | Proportion no more than 500 | 5% | 1 | Proportion no more than 1500 | 3% |
| 2 | Proportion from 500 to 2000 | 10% | 2 | Proportion from 1500 to 4500 | 10% |
| 3 | Proportion from 2000 to 5000 | 15% | 3 | Proportion from 4500 to 9000 | 20% |
| 4 | Proportion from 5000 to 20000 | 20% | 4 | Proportion from 9000 to 35000 | 25% |
| 5 | Proportion from 20000 to 40000 | 25% | 5 | Proportion from 35000 to 55000 | 30% |
| 6 | Proportion from 40000 to 60000 | 30% | 6 | Proportion from 55000 to 80000 | 35% |
| 7 | Proportion from 60000 to 80000 | 35% | 7 | Proportion more than 80000 | 45% |
| 8 | Proportion from 80000 to 100,000 | 40% | | | |
| 9 | Proportion more than 100,000 | 45% | | | |

New Social Security Provisions

The revised Social Security Law announced at the end of October in 2010 (referred to in our December 2010 Issue) became effective from 1st July, 2011. The social security system in China principally catered for Chinese nationals and covered basic compensation for work related injury and benefits for retirement, health, unemployment and maternity. The revised law expands its scope to cover foreigners employed in China which carries the implication that expatriates (and their employers) are required to contribute to it too. This will no doubt increase the personnel costs and affect the remuneration packages for expatriates. However, to this day there is still no detailed guidance on several issues including:

- how and how much the expatriate and his/her employer should pay; and
- how the expatriate would claim for their entitled benefits when they are in and out of China (particularly for good);

Sino-Bridge will follow up on this and update CBA readers at the first available instance.

Clarification on Corporate Income Tax

On 9th June 2011, State Administration of Taxation (“SAT”) issued Pronouncement No. 34 to clarify some issues related to Corporate Income Tax (“CIT”) including the following:

- justification of interest paid on loans from non-financial entities;
- deductibility of expenditures on staff;
- tax treatment on expenses incurred on renovation and extension of buildings before the costs of the relevant building has been fully depreciated;
- tax treatment on gains or losses on reduction and withdrawal of investments by investment enterprises;

- deductibility of training expenditures of aviation enterprises;
- timing for the submission of necessary supporting documents for tax purposes;

The pronouncement came into force on 1st July 2011.

Discussion draft on capital injection in the form of shares of other enterprises

In May, Ministry of Commerce (“MOC”) released a discussion draft for public comments on capital injection in the form of shares of other enterprises covering the following aspects:

- setting up a new foreign invested enterprise (FIE)
- covering a domestic enterprise a FIE
- increase the registered capital of a FIE

SB will watch out closely for the release of the formal regulations on this to keep CBA readers promptly abreast of development in this important area.

Service Highlight

Ever changing rules and regulations in China bring extra compliance burden to foreign investors. Against these China offers unprecedented opportunities for a long time to come, SB commits to helping our clients to capture and fully leverage these opportunities and steer through the regulatory maze with the peace of mind. To this end our Marketing Executive, Mary Li, will be pleased to hear from you for any assistance you may need from us. Please feel free to call her on 3579 8745 or email her at maryli@sinobridge-consulting.com.

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