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Consulting Group

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Shenzhen Special Economic Zone ("SEZ") approved for expansion

Shenzhen, the pioneering city of China's Economic Zones, finally received the approval for expansion from the central government. Historically, the city outside of Shenzhen Economic Zone (SEZ) is divided into two parts, ie Baoan and Longgang Districts totaling 1,553 square km in area or four times the size of SEZ. SEZ benefits from preferential policies and has, to some significant degree, an independent set of legislation. From 1st July, Baoan and Longgang will be integrated into SEZ. The move was expected to close the gap in many respects between the current SEZ and the two districts it is taking over. This is perceived to eventually benefit all Shenzhen residents, enhance innovation and scientific progress, and promote healthy and balanced economic growth in the city. Moreover, it could also mean more opportunities for Hong Kong and the outside world arising from investment in a larger area and the deepening and facilitation of the existing cooperation among the neighboring areas.

Further clarification on the new rules for attaining VAT general tax payer status

State Administration of Taxation ("SAT") issued a circular, Guoshuihan [2010] No.139, to clarify some definitions and terms in the revised "Administrative Measures on the Granting VAT General Taxpayer status" (our CBA April edition referred), with particular focus on taxable turnover threshold and identifying applicants for site visit. It is worth noting that the tax authority in Guangdong Province stipulated that site visit is compulsory for trading companies who apply for VAT general taxpayer status but do not meet the taxable turnover threshold. This is also the case for newly established companies having a registered capital of less than RMB800K.

Individual Income Tax ("IIT") targeting high-income earners

On 31st May, SAT released a notice, Guoshuifa [2010] No.54, to strengthen the administration of IIT with due regard to high-income earners including shareholders of public companies, owners of private companies, partners of partnerships, foreigners and professional service providers. The document required local tax authorities to take solid steps to strengthen the administration, monitoring, assessment and inspection in respect of IIT applicable to high-income groups. Sensitive areas such as transfer of property, interest, dividend should receive special attention. It also stressed the need for coordination and cooperation between the Tax Authority, Public Security Authority and Foreign Exchange Authority.

Foreign-invested Partnership ("FIP") in China

Further to our comments on FIP in our CBA December 2009 edition, we would like to provide you with more information. According to the "Administrative Measures on Partnership Established by Foreign Enterprises or Individuals" which came into force on 1st March this year, foreign enterprises and/or individuals could set up partnerships in China on their own or together with Chinese individuals and/or enterprises. Foreign investors can even join a domestic partnership and transform it into a FIP. FIP could be a general partnership (including special general partnership which is usually used for professional service industry) or a limited partnership. The general tax principle is "split first and tax later" which means all the partners have to pay their tax on the income derived from the partnership separately on their own.

FIPs have advantages including the lack of requirements on approval from the local branch of Ministry of Commerce (MOFCOM) and registered capital. However, investors should assess whether these are fundamental and attractive enough comparing to the unlimited liability FIPs carry, particularly in view of the fact that registered capital requirements are getting lower and lower and the red tapes of setting up other forms of companies are becoming less and less. Moreover, there are bound to be uncertainties over important new legislations at their initial stage of being implemented.

Shanghai World Expo met Dragon Boat Festival

On 16th June, or 5th May of the lunar calendar, the busy World Expo in Shanghai reached a new high when it intertwined with the Dragon Boat Festival. As people had 3 days off from work, from 14th to 16th June, for the Dragon Boat Festival, a lot of them took the opportunity to visit the Expo. The number of visitors just hit 541K on 15th June and broke the record to day. Volunteers wore clothes and handed out posts befitting the cultural spirit behind the festival. Visitors also had opportunities to make Zongzi which is the food for commemorating the festival. It is rice dumpling with a variety of other materials such as pork, peanuts, salted eggs, dates and red beans wrapped in lotus leaves usually in triangular shape.

Service Highlight

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