

China Business Advisory

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Tax Incentives to Small Business in China

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In view of the importance of the role of smaller businesses, the Chinese government has been coming up with incentives to encourage their development. In this issue of the CBA, we would like to brief you on the following from the tax

perspectives.

- Corporate Income Tax (“CIT”)

The eligible "small and thin-profit" companies can enjoy a lower CIT rate at 20%. The criteria include:

- The companies are not in the restricted or prohibited industry;
- For manufacturing companies, the annual taxable income is not more than RMB300,000, the number of employees is not more than 100 and the total asset is not more than RMB30 million; and
- For other companies, the annual taxable income is not more than RMB300,000, the number of employees is not more than 80 and the total asset is not more than RMB10 million.

Moreover, if their total taxable income is not more than

- RMB60,000 from 2012 to 2013; and
- RMB100,000 from 2014 to 2016,

they enjoy a further 50% reduction on their taxable income, resulting in an effective CIT rate of 10%.

- Value Added Tax (“VAT”) and Business Tax (“BT”)
Eligible small and thin-profit companies who are small-scale VAT tax payers and has monthly taxable income of not more than RMB20,000 can be exempt from VAT and BT provisionally from 1st August 2013.
- Stamp Duty
Within the period of 1st November 2011 to 31st October 2014, loan agreements signed by small and thin-profit companies with financial institutions are exempt from Stamp Duty.

Please note the above preferential policies are not applicable to non-resident tax payers.

Lower CIT Rate in Three Areas in China

State Administration of Taxation (“SAT”) and Ministry of Finance (“MOF”) jointly released a circular at the end of March, Caishui [2014] No. 26, to announce a reduced CIT rate for certain industry categories in Hengqin in Guangdong Province, Pingtan in Fujian Province, and Qianhai in Guangdong Province. Companies in these three areas with their major business falling within categories of industries specified in the “Preferential CIT Catalogue” can enjoy the reduced CIT rate of 15% from 2014 to the end of 2020.

This welcome development is thought to be an inviting policy to attract more investments to the three new specific zones to simulate the growth of local economy. Meanwhile, further detailed stipulations are likely to be released shortly for its implementation. We will keep you updated as these unfold.

New Foreign Exchange Control Regulation regarding Cross-border Guarantee

State Administration of Foreign Exchange issued a new circular, Huifa [2014] No. 29, on 19th May 2014 to ease the foreign exchange control on cross-border guarantee transactions, which was seen as a very positive development to simplify government approval procedures. The key provisions of this regulation are:

- Dispensation of all pre-approval requirements pertaining to cross-border guarantee transactions;
- Narrowing the scope of transactions to be subject to registration and approval by the authority;
- Integration of all relevant regulations into this circular;
- Clarification on the scope of transactions subject to foreign exchange control and supervision; and
- Introduction of necessary measures to monitor abnormal cross-border cash flows.

This regulation came into effect on 1st June 2014. It provides specific guidance and clarification to enterprises in light of the increasingly varied and complicated cross-border guarantee transactions.

Service Highlight

It is evident that the Chinese government is becoming keener on simplifying the process of official approvals to enhance the business environment for foreign investors. We are pleased to be in a position to help investors to take advantage of this to identify and explore potentially promising investment opportunities to settle with the most suitable ones in their best interests. And we take pride in rendering all the advice our clients need to enable them to manage their investment in China with due success. Our Marketing Executive, Ms. Yannes Lam, would like to hear from you at (852) 3579 8745 or yanneslam@sinobridge-consulting.com as to how we can assist you with your business plan for China.

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