SINO-BRIDGE Consulting Group

China Business Advisory

2015 Issue 6 June 2015

TABLE OF CONTENTS

China releases the new "Catalogue for the Guidance of Industries for Foreign Investment (2015 version)"

Recently, the National Development and Reform Commission ("NDRC") in conjunction with the Ministry of Commerce ("MOC") issued the new "Catalogue for the Guidance of Industries for Foreign Investment (2015 version) ("Catalogue") which relaxes many restrictions on foreign Investment.

Now in its sixth version, the Catalogue opens more areas and opportunities for the participation of foreign business. It encourages foreign businesses to engage in modern agriculture, new-high technology, advanced manufacturing, energy-saving & environmental protection projects, new energy, modern services and R&D business.

Compared with the last version issued in 2014, this new Catalogue:

- More than halves the number of industries (from 79 to 38) wherein foreign investments are subject to restrictions；
- Reduces industries in which Chinese investors must hold non-controlling and controlling stakes from 43 to 15 and 44 to 35 respectively；
- Bars foreigners from 36 industries compared to 38 in the previous version；
- Fine tunes industries where foreigners are encouraged to be involved in to reflect the importance of advanced technology and new materials to the Country.

New treatment of Individual Income Tax on Commercial Health Insurance

On 8th May 2015, the Ministry of Finance ("MOF"), State Administration of Taxation ("SAT") and China Insurance Regulatory Commission ("CIRC") joined forces and issued Caishui [2015] No. 56 ("Circular 56")which, coming into effect from 8th May, 2015, introduced favorable Individual Income Tax ("IIT") treatment on premiums paid for qualified commercial health insurance products. All municipalities directly under the Central Government and a major city from each province will be nominated for the implementation of the pilot program. Taxpayers in the pilot cities who earn income from the following sources will be eligible to claim a tax deduction against the respective category of assessable income for the premium they pay for qualified commercial health insurance products:

- wages and salaries;
- remuneration for providing services;
- production or business operations conducted by self-employed industrial and commercial households;
- contracted or leased operations of enterprises or social service providers partly or wholly funded by state assets.

Circular 56 appears to be the outcome of Premier Li's message about encouraging the general public to purchase comprehensive health insurance products and the resolve of the SAT to reform the IIT regime. To now, the types of allowable deductions for wage earners in China are limited. The release of Circular 56 provides some room for tax effective remuneration planning for employers. However an annual cap of RMB2,400 (or RMB200 per month) has been set as the allowable tax deduction in respect of the relevant insurance premiums paid. The qualified commercial health insurance products in question refer to the comprehensive health insurance products which are to be developed by the CIRC to cater to the needs of the general public and approved jointly by the MOF, SAT and CIRC.

Various authorities will work together to develop the work plans for implementing the pilot program in the coming month and will submit them to the MOF, SAT and CIRC for filing and approval. Sino-Bridge will closely follow up the details of the plans and share our insights with CBA readers in due course.

New China – Hong Kong tax arrangement to benefit Hong Kong leasing and asset management industries

On 1st April 2015, the governments of the People's Republic of China ("PRC") and the Hong Kong SAR signed the Fourth Protocol (the Protocol) to the China - Hong Kong Double Tax Arrangement ("DTA") of 2008 which provides favorable tax treatments for Hong Kong enterprises undertaking aircraft and ship leasing and conducting cross border public market security investment activities. These tax treatments are superior to those conferred by China to other jurisdictions to date and would boost Hong Kong's development as a capital equipment leasing hub and asset management center.

The salient elements of the Protocol are:

- Withholding tax

Income derived by a Hong Kong company from aircraft and ship leasing businesses (excluding the interest portion under a finance lease arrangement) is now subject to 5% Withholding Tax ("WHT"), down from 7%. This WHT change is accompanied by the exemption from Value Added Tax ("VAT") for income derived by a Hong Kong company from the provision of air, land and sea transport services to Chinese customers. Both could be seen to be a propelling factor to enhance Hong Kong's position as a leasing hub in the region.

- Capital gains

The Protocol makes it clear that gains derived from trading of shares in listed companies transacted by either Hong Kong or China enterprises in a recognized exchange platform will be exempt from tax in the jurisdiction where the transaction took place which is a stark contrast to the principle for activities of this nature that China would generally retain a taxing right. This will understandably put Hong Kong enterprises conducting cross border investments and business activities with the Mainland in an advantaged position.

Service Highlight

China has managed to sustain strong and longtime economic growths and is still one of the most attractive markets to investors in other parts of the world. With more than two decades of dedicated operation in China, we are in a privileged position and are keen to help investors to exploit their full potentials from their business presence in China. Our Marketing Executive, Ms. Yannes Lam, would like to hear from you at (852) 3579 8745 or yanneslam@sinobridge-consulting.com as to what we could do for you to this end.

Our China Investment Business Advisory Team

Hong Kong
Room 2301-02, 23/F, Prosperity Center,
25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong

Shanghai
Room 30A, 30/F, World Plaza, No.855, South Pudong Road, Pudong New Area, Shanghai, PRC 200120

Guangzhou
Room A13, 16/F, Vili International, 167 Linhexilu, Tianhe District, Guangzhou PRC 510000

Lyon Odiceo
115 Boulevard Stalingrad – BP52038,
69616 Villeurbanne Cedex, France

Website: www.sinobridge-consulting.com
E-mail: info@sinobridge-consulting.com
Telephone: (852) 3579 8745