

# China Business Advisory

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## Minimum Wages going up further in Shanghai

Wages in China have been going up in line with the rapid growth of the economy. In 2011, 25 provinces and cities increased their local minimum wages. Shenzhen had the highest at RMB1,320 per month. Followed by Shanghai and Beijing at RMB1,280 and RMB1,160 respectively.

At the end of February 2012, Ministry of Human Resources and Social Security (“MHRSS”) issued a letter to approve the proposal made by Shanghai local government to increase the minimum wage to RMB1450 -1460 per month from the current RMB1280 per month, which was set in April 2011. The minimum hourly wage for part-time job will be increased from RMB 11 to RMB 12.50 per hour. It is expected that the formal announcement will come out shortly and we will keep our readers informed accordingly.

## Provisions in securities industry

As we said in our last edition, Tax authority in China usually does not accept provisions for Corporate Income Tax (“CIT”) deduction purpose except for some entities such as finance companies. Ministry of Finance (“MOF”) and State Administration of Taxation (“SAT”) have jointly issued a circular on 16<sup>th</sup> February 2012, Caishui [2012] No. 11, to allow also provisions in securities industry for stock exchange risk fund, settlement risk fund, investor protection fund and a series of reserves relating to their future transactions.

## **Revised regulation regarding franchising industry**

In recent years, fraud in franchising industry has become more and more severe. Ministry of Commerce (“MOC”) released its Decree No. 2 in 2012 to announce the revised “Administrative Measure on Information Disclosure in Franchising” to regulate the industry further for better protection for both franchisers and franchisees. The main revision includes:

- Extend the related party scope to cover the natural-person shareholders of the franchiser;
- Requirements for more detailed information disclosure, including all the relevant arbitration or lawsuits in the past 5 years;
- Stress on the non-disclosure responsibility of the franchisee;

It will come into force on 1<sup>st</sup> April 2012 and replace the current one which was released in 2007.

## **New regulations in Xiamen City with regard to Business Tax and Social Security**

The local tax authority in Xiamen City issued a pronouncement (2012 No. 3) on 29th February 2012 to allow certain deductions to revenues before applying the relevant Business Tax rates in contrast to the past levy on the overall revenue without deduction. Shanghai announced similar regulation in August 2010 and kicked off the pilot program of replacing BT by Value Added Tax (“VAT”) at the end of 2011. We believe Xiamen is following the footsteps of Shanghai as yet another step towards tax reform in China.

The relevant authority also announced another circular in March 2012 to stress on the determination of the government to put expatriates at par with local employees as regards social security contributions. Employers in the city are requested to register for social security contributions for their foreign employees and make contributions due retrospectively from 15<sup>th</sup> October 2011 or the date of employment to avoid penalties.

## News on tax reform in Shanghai

According to China Times, one of the financial presses in China, the tax burden of certain enterprises, especially those in the transport industry, in Shanghai became heavier since the tax reform (replacing BT by VAT) this year. In this light, it is believed that additional low tax rates may be introduced to address this. Implementation details, which were explained in our February Edition, are expected to be announced soon thereafter. We will keep you updated in this regard.

## Service Highlight

Proper compliance in the dynamic regulatory environment in China is a critical and challenging matter. We have been striving to help our clients to manage this with our professional team. If you need any assistance or help, please feel free to call our Marketing Executive, Ms Mary Li, on +852 3579 8745 or email her at [maryli@sinobridge-consulting.com](mailto:maryli@sinobridge-consulting.com).

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