

## China Business Advisory

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### TABLE OF CONTENTS

#### 1. China Updates

- ✧ VAT Reform to Go Across All Industries in May 2016
- ✧ Further Items off the List Needing Approval
- ✧ Enhancement of Tax Payer Rating
- ✧ Service Industry Innovation in Pilot Areas
- ✧ 12th National People's Congress Held in Beijing

#### 2. Service Highlight

### VAT Reform to Go Across All Industries in May 2016

On 5<sup>th</sup> March 2016, Premier Li Keqiang announced in his report to the National People's Congress ("NPC") that Value Added Tax ("VAT") will fully replace Business Tax ("BT") in 2016. Two days later, Ministry of Finance ("MOF") and State Administration of Taxation

("SAT") jointly released Caishui [2016] No.32 to urge local Finance and Tax Authorities to be set for the implementation. The highlights of this announcement are:

- Starting from 1<sup>st</sup> May 2016, the replacement of BT with VAT will be extended to construction, real estate, finance and consumer services;
- Tax burdens on all industries should be reduced or not exceed the current level;
- Unlike previous regional reform trials, the implementation will take place all over Mainland China at the same time;

At the time of writing this CBA, the detailed implementation rules are being released. Sino-Bridge will study this in detail with a view to helping our readers to make the most of this strategic move of the Chinese government.

## **Further Items off the List Needing Approval**

State Council launched GuoFa [2016] No.9 on 19<sup>th</sup> February 2016 to remove 152 administrative items that need approval from government authorities. In support of this, SAT released Shuizongfa [2016] No.23 on 24<sup>th</sup> February 2016 and SAT Announcement [2016] No.10. These reinforce the trend that foreign individuals and foreign-owned and overseas enterprises can expect to be subject to decreasing government bureaucracy, particularly in regard to business registration, importation and exportation.

## **Enhancement of Tax Payer Rating**

According to SAT Announcement [2014] No.40, entities in China are given different tax payer rating levels. Level A entities will receive preferential treatment, such as obtaining VAT invoices for 3 months in one application, while Level D entities will be subject to close scrutiny from the relevant local Tax Authority, such as these entities having to submit old invoices to the local Tax Authority for verification to support their application for new ones subject to a preset quantity. Furthering this, SAT released Announcement [2016] No. 7 on 14<sup>th</sup> February 2016 to allow Level A taxpayers to do their VAT filing without the authentication process for purchase invoices when setting off the input VAT arising from them against the output VAT of the period which significantly reduces the burden of compliance. Immediately following this, Announcement [2016] No. 9 came out on 16<sup>th</sup> February 2016 to improve the management system, for a due process to appropriately and promptly classify taxpayers into the different rating levels.

## **Service Industry Innovation in Pilot Areas**

At their meeting on 14<sup>th</sup> February 2016, the Standing Committee of State Council initiated test projects for the innovative development of the service industry in the next two years in designated districts to explore ways of enhancing the service industry. To this end State Council issued Guohan [2016] No.40 on 25<sup>th</sup> February 2016 for the details of the scheme with due regard to Guofa [2015]

No.8. This announcement is aimed at helping foreign enterprises to engage in the service industry through support from the government, preferential tax rates and financial subsidies.

## **12th National People's Congress Held in Beijing**

In addition to VAT reform, Premier Li Keqiang emphasized the following important government policies in his report on the work of the Government at the opening ceremony of NPC to further support the operation of foreign enterprises:

- Reduce the burdens in terms of tax and levies at the expense of budget deficit, with specific reference to small and micro enterprises playing a substantial role in the national economy
- Continue to cut down on administrative red tapes through synchronizing and better coordination of the works of different government departments;
- Release further negative lists to allow for easier market access;
- Enhance preferential tax policies for high-tech enterprises and incubation of technological enterprises;
- Speed up tax refunds for export businesses;
- Expand cross-border e-commerce;
- Further encouragements for businesses to move to mid-west areas and to the medium-high end of the industrial chain;
- Continue to reduce restrictions on and simplify the process for in-bound investments particularly in service industry and manufacturing;

It is obvious from Li's report that increasing number of preferential policies for foreign enterprises are in the pipeline. Sino-Bridge will follow these closely for CBA readers.

## Service Highlight

As the second largest economy in the world, China attracts the world's attention for any of its major move. Sino-Bridge will continuously update you on such that could have significant impacts on your operation in China. From your end, you are encouraged to contact our Marketing Executive, Ms. Kimme Chan, at (852) 3579 8745 or [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) for any assistance you may need from us.

## Our China Investment Business Advisory Team

### **Hong Kong**

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

### **Guangzhou**

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

### **Shanghai**

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

### **Lyon Odiceo**

115 Boulevard Stalingrad – BP52038,  
69616 Villeurbanne Cedex, France

**Website:** [www.sinobridge-consulting.com](http://www.sinobridge-consulting.com)

**E-mail:** [info@sinobridge-consulting.com](mailto:info@sinobridge-consulting.com)

**Telephone:** (852) 3579 8745

**Hong Kong**

**Guangzhou**

**Shanghai**

**Lyon**

For any enquiries, please contact Ms. Kimme Chan, Marketing Executive: [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) Tel: (852) 3579 8745