

China Business Advisory

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1. Allowable deductions for loan losses and reserves for financial enterprises

The Ministry of Finance (MOF) and the State Administration of Taxation (SAT) issued a circular jointly, Cai Shui [2009] No. 64 (Circular 64), on April 30th, 2009, which clarifies the conditions for loan provisions to be allowable against Corporate Income Tax (CIT) for financial enterprises according to the new CIT law and its implementation rules. It gives some indication of loans eligible for allowable provision and basis for arriving at it.

Cai Shui [2009] No.48 (Circular 48), issued by MOF and SAT jointly several days prior to and of the same effective date as Circular 64, stipulates the detailed regulations allowable reserves against CIT for the insurance companies.

Full details and timeline for implementation for these two circulars are however yet to come out. Sino-Bridge will follow this up and inform you of the development in these regards.

2. Allowable asset losses against CIT

MOF and SAT jointly issued a circular on April 17th, 2009, Cai Shui [2009] No. 57 (Circular 57), to introduce the detailed regulations for asset losses against CIT which took effect from January 1st, 2008. This circular stipulates the conditions and basis for claiming losses relating to trade debts, investment, inventory, fixed assets, etc.

3. Allowable pre-production expenditures against CIT for gas and oil companies

Considering the special characteristics and accounting treatment for the gas and oil industry, Cai Shui [2009] No.49 (Circular 49), was jointly issued by MOF and SAT, to clarify the detailed rules on allowable expenditures prior to commercial production against CIT. It took effect from January 1st, 2008 retrospectively.

4. Preferential CIT policy for companies which employ handicapped people

MOF and SAT issued a circular, Cai Shui [2009] No. 70 (Circular 70), on April 30th, 2009 to state the preferential policy on the employment of handicapped staff. Generally speaking, subject to some conditions being met, two times the salary paid to handicapped staff is deductible against taxable profits. This circular was effective from January 1st, 2008.

5. Preferential CIT policy on income from technology transfer

SAT issued a circular, Guo Shui Han [2009] No. 212, on April 24th, 2009 to further clarify on the rules for CIT reduction/exemption for income from technology transfer. This circular became effective from January 1st, 2008 and mainly spells out the criteria for eligible income, the basis for its recognition and the filing requirements therefor.

6. Accelerated depreciation of fixed asset qualified by tax authority

A circular, Guo Shui Fa [2009] No. 81, was issued by SAT on April 16th, 2009 which clarifies the requirements for accelerated depreciation of fixed assets to be available which became effective from January 1st, 2008. The requirements cover applicable situations, acceptable depreciation bases and filing arrangements. This should facilitate the plans of relevant companies to upgrade and replace their equipment.

7. Valued Added Tax (VAT) in respect of equipment released from Custom supervision

According to relevant regulations, equipment imported free of custom duty and VAT is subject to supervision by the Customs Authority for a certain number of years. Customs duty and VAT must be paid if such equipment were employed for operation other than that allowed within the supervision period. Since the newly enacted VAT Provisional Regulation allows, with effect from January 1st, 2009, VAT paid on acquisition of fixed assets to be offset against VAT to be paid on sales made, Guo Shui Han [2009] No. 158, issued by SAT in reply to the query from Shenzhen State Tax Bureau, confirms that the VAT so paid receives the same treatment.

As most of the regulations highlighted above impact tax filing for 2008, Sino-Bridge would like to remind our readers to contact and communicate promptly with your local Tax Authority to ensure that appropriate actions are taken to the best interest of your entities. Sino-Bridge will be pleased to be of assistance in this regard.

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