

## China Business Advisory

2012 Issue 5

May 2012



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### New Regulation for Zero-rated VAT

The Value Added Tax (“VAT”) pilot program applying to transportation and other certain modern service industries is currently operational in Shanghai. The rules for the pilot program provide that the export of certain types of services may be treated as zero-rated or exempt for VAT purposes. However, in practice, businesses were waiting for detailed application procedures and

documentation requirements to avail themselves to tax benefits so arising. To this end, an announcement, [2012] No. 13 (“Announcement 13”) was released by the State Administration of Taxation (“SAT”) on 5<sup>th</sup> April 2012 which sets out the application procedures and documentation requirements for claiming zero-rated VAT concessions for exported services under the VAT pilot program. It applies to businesses providing the following types of services under the VAT pilot program:

- International transportation services
- R&D services
- Design services

It is important to stress that these administrative measures only apply to those services which are zero-rated under the VAT pilot program. Circular Caishui [2011] No. 131 separately deals with exemptions from VAT for exported services. A further announcement is expected to be issued shortly on this.

## Social Security Contribution of Expatriates

Up to now, the following two main regulations on social insurance contribution of expatriates working in China have been effected:

1. Renshebuling [2011] No. 16, “Interim Measure for Participation of Expatriates Employed in China in the Chinese Social Security Scheme”, was effected on 15<sup>th</sup> October 2011 which stipulates that people who are of a non-Chinese nationality and legally employed in the territory of China are required to participate in the Chinese Social Security Scheme. Contributions to the Scheme include those for basic pension, basic medical benefits, and insurance for industrial injury, unemployment and maternity.
2. Renshetingfa [2011] No. 113 is a “Circular on Certain Questions Related to Participation of Expatriates Employed in China in the Chinese Social Security Scheme” announced on 2<sup>nd</sup> December 2011. According to this circular, expatriates employed before 15<sup>th</sup> October 2011 should participate in the Chinese social security scheme from 15<sup>th</sup> October 2011. Those employed after 15<sup>th</sup> October 2011 should participate from the month of the commencement of employment.

However, local governments have been setting up detailed implementary interpretations of the above regulations. At present, not all the cities have put out detailed regulations or declared when they intend to enforce these regulations. The following table shows the status of some of the main cities on this issue.

Cities	Implemented?	Detailed regulations available?
Beijing, Qingdao, Xiamen, Chengdu, Chongqing, Suzhou(including the industrial park), Wuxi	Yes	Yes
Shenzhen, Guangzhou, Tianjin, Dalian, Shenyang, Nanjing, Changzhou, Hangzhou, Shaoxing, Changchun, Weihai	Yes	No
Shanghai	No	No

Shanghai has not promulgated any detailed regulations for implementation. While expatriates in Shanghai are apparently spared for now, we draw attention of CBA readers to the possibility that contributions, retrospective to 15<sup>th</sup> October 2011, might be required when Shanghai eventually issues its detailed regulations and implementation measures.

### **CIT Incentives for Western Regions**

SAT issued Announcement [2012] No. 12 (“Announcement 12”) on 6<sup>th</sup> April 2012, clarifying various implementation issues with regard to Corporate Income Tax (“CIT”) incentives stipulated in Caishui [2011] No.58 (“Circular 58”) in line with the western region development strategy. Announcement 12 takes effect from 1<sup>st</sup> January 2011 to 31<sup>st</sup> December 2020.

The salient points of it are summarized as below:

- Where the conditions are satisfied, enterprises in western China are eligible for the reduced CIT rate of 15%;
- Procedures enterprises have to go through to enjoy the 15 % CIT rate;
- Arrangements for enterprises with branches in or outside western China;

The economic development of China’s western regions has been playing an important role in the country’s overall economic progress. The central government has attached great importance to the modernization of the western region and provided a number of tax incentives in support of the policy. Circular 58 and Announcement 12 have not only extended the original tax preferential policies for developing western China, but also modified the previous approval and verification procedures. These modifications will help to reduce the administrative burden of enterprises applying for the incentives.

“Catalogue of Encouraged Industries in western China”, the essential document to justify the eligibility, is still in the process of being finalized. Sino-Bridge will be on the watch out to provide our CBA readers update on this in our coming CBAs.

## **New Visa Policy to Attract Talents**

A new visa category titled "Talent Introduction" has been added to a draft regulation on China's exit and entry administration as part of the country's efforts to attract talented individuals from overseas. The draft was submitted to the Standing Committee of the National People's Congress (NPC), China's top legislature, for its second reading and review on 24<sup>th</sup> April 2012.

## **CEOs Field Trip to Wuxi**

A CEOs field trip to the city of Wuxi was hosted by our affiliate organization from 29<sup>th</sup> to 31<sup>st</sup> May 2012 to visit the ancient city and communicate with some public listed companies. The detailed schedule can be found in the appendix to this CBA circulation. While this event would have already taken place by the time this CBA reaches our readers, those who are interested in this kind of business activities can contact us so that we can be in touch with them in good time for such in future.

## **Service Highlight**

Compliance in the regulatory environment in China is a dynamic matter. This makes our work to help our clients to manage their business in China ever more demanding but rewarding when we, without exception, see them through their issues every time. If you have something to add to our challenges, 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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## Appendix

### FIELD TRIP TO WUXI

#### Highlights:

1. Visit three listed companies in Wuxi, dialog with senior executives to exchange experiences and views on business models, general management, corporate finance and capital utilization, human resources management and sales management etc.
2. Visit Jiangsu Digital Information Park and to learn about the preferential policy for incubation for high-tech enterprises
3. Visit Xu Bi'an, Master of Purple Clay Teapot in Yixing, whose works are well recognized by collectors and tea lovers
4. Visit to Huaxi Village, once an impoverished and backward village that has been transformed into a modernized city. The "village", known as the "First Village Under Heaven, is China's model for prosperity.

#### FIELD TRIP – AGENDA

Date	Time	Itinerary
Tue May 29	07:45-10:45	From Shenzhen to Wuxi
	11:00-11:30	From Wuxi Airport to Hotel
	11:30-12:00	Lunch
	13:30-15:30	Visit Jiangsu Zhongchao Cable Corporation ( <a href="http://www.zcdlgf.com/en/index.asp">www.zcdlgf.com/en/index.asp</a> ) Meet with Mr. YANG Fei, Chairman and his team / Factory Tour
	15:30-16:00	Visit Xu Bi'an, Master of Purple Clay Teapot to appreciate his artworks
	16:00-17:00	Return to Wuxi City for dinner
	Wed May 30	08:00-09:00
09:00-12:00		Huaxi Village Tour: Visit Golden Pagoda and Happy Garden, meet with Party Secretary, visit high-tech agriculture greenhouse
12:00-14:00		Lunch
14:00-17:00		Visit Fastern Group, a leading fiber & steel wire rope manufacturer ( <a href="http://www.chinafasten.com/jtgs/en/about.html">www.chinafasten.com/jtgs/en/about.html</a> ) Meet with Mr. LIU Lihua, Group President and his team

		Factory Tour (Fibre optic plant and steel wire plant)
	Evening	Dinner with entrepreneurs in Wuxi (Organized by Wuxi Entrepreneurs Union)
Thu May 31	08:00-11:00	Visit to Lin Mountain where the world's highest Buddha outdoor bronze status is located. Enjoy the dynamic landscape and experience the beautiful scenery
	11:00-14:00	Visit Suzhou Digital Information Industrial Park Lunch at the Industrial Park
	14:00-15:30	Visit Suntech Power, World's largest producer of solar panels ( <a href="http://am.suntech-power.com">http://am.suntech-power.com</a> ) Meet with Mr. LIU, Zhibo, Vice Group President and his team Plant tour / Ecological Park Hall tour
	15:30	Leave for Wuxi airport and return to Shenzhen

Note 1: Participants of the field trip includes local entrepreneurs in China, mostly from Shenzhen

Note 2: English interpreters with strong China experience and management consulting background available throughout the trip