

China Business Advisory

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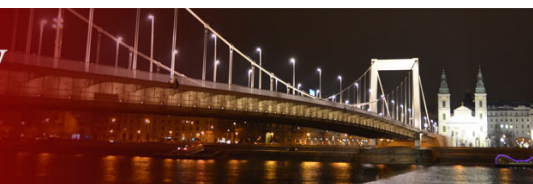


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2. Service Highlight

Modification of the Tax Calculation Formula for ROs and Non-Resident Enterprises

The State Administration of Taxation (“SAT”) released Announcement [2016] No.28 on 5th May 2016 to modify the tax calculation formula

for the deemed taxable income for representative offices (“ROs”) and non-resident enterprises under the cost-plus method to facilitate the implementation of the final stage of VAT Pilot Program.

The modifications to the formula in Section 7.1.1 of Guoshuifa [2010] No.18, “Provisional Measures for the Administration of Tax Collection on Permanent Representative Offices of Foreign Enterprises”, and Section 4.3 of Guoshuifa [2010] No.19, “Administrative Measures for the Levy and Collection of Income Tax of Non-resident Enterprises on the Deemed Basis” are as follow:

- Deemed taxable income of ROs or non-resident enterprises = Expenditure of current period / (1- deemed profit rate) x deemed profit rate

The modification to the formula in Section 7.13 of Attachment 6 of SAT Announcement [2015] No. 30 is as follows:

- Deemed revenue = Total expenditure / (1- deemed profit rate)

This announcement was enforceable on 1st May 2016.

VAT Preferential Policies for Promoting the Employment of Disabled Persons

The State Administration of Taxation (“SAT”) and Ministry of Finance (“MOF”) released Caishui [2016] No. 52 on 5th May 2016 on the VAT preferential policies for promoting employment of disabled persons. The highlights include:

The business entities and individual who employ the disabled persons are referred hereto “Taxpayers”, the amount of VAT refund will be capped up to four times of the local minimum wages based on the number of disabled persons employed by the Taxpayers.

Taxpayers need to meet the following conditions to be entitled to the VAT preferential policies:

- The minimum number of disabled employees should not be less than twenty-five percent (inclusive) of the total number of employees, and:
 - Other than blind massage centres, the number of disabled employees should not be less than ten people (inclusive) every month;
 - For blind massage centres, the number of disabled employees should not be less than five people (inclusive) every month.
- The service period of the employment agreement or service agreement signed with disabled employees should be more than one year (inclusive).
- The Taxpayers have made the respective social securities contributions for the disabled employees including pensions, medical insurance, unemployment insurance, work injury insurance and maternity insurance in accordance with the laws every month.
- The Taxpayers have paid salaries to the disabled employees through bank and the amounts paid are not less than the local minimum wages.

The preferential VAT policies only eligible to Taxpayers with VAT revenues exceeding fifty percent of their total VAT taxable revenues deriving from industries including manufacturing and sale of goods, provision of processing, repairs and maintenance services, and the provision of modern and life services under the VAT pilot program (excluding cultural, sports and entertainment services).

Taxpayers in direct resale (including wholesale and retail industry) and sales from consignment manufacturing are not eligible for the preferential VAT policies. Taxpayers are required to account for revenues from ineligible business activities separately in order to enjoy the preferential treatments.

With effect from 1st May 2016, Caishui [2007] No. 92 “Preferential VAT Policies for Promoting the Employment of Handicapped Persons”, and section 2.2 of Attachment 3 of Caishui [2013] No. 106 “The Launch of VAT Pilot Reform to Railway Transport Industry and Postal Service Industry” were revoked. Taxpayers relying on Caishui [2007] No. 92 and Caishui [2013] No. 106 prior to 1st May 2016, should apply for VAT refund based on section 5 of Caishui [2016] No. 52.

Transitions Issues of Invoices Administration between State and Local Tax Authorities

The State Administration of Taxation (“SAT”) released Announcement “Shuizonghan [2016] No. 192” on 3rd May 2016, which highlighted the transitions issues of invoices administration between state and local tax authorities arising from the VAT reform.

- As of 1st May 2016, local tax authorities shall not issue any new tax invoices to taxpayers who are subject to VAT reform. Local tax authorities shall not print any new tax invoices, and all printed invoices shall be well documented and cancelled.
- Tax invoices with printed companies’ names from the local tax authorities prior to 30th April 2016, may continue to be used until 30th June 2016.
- Taxpayers who are applying for tax invoices from state tax authorities for the first time must return their tax invoices issued by local tax authorities previously for cancellation first.
- Taxpayer who received tax invoices from state tax authorities must handover all tax invoices from local tax authorities for cancellation before applying for any new tax invoices.

Service Highlight

It is evident that the Chinese government is becoming keener on improving the business environment for foreign investors. We are pleased to be in a position to help investors to take advantage of this to identify and explore potentially promising investment opportunities for their growth and expansion. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or kimmechan@sinobridge-consulting.com as to how we can assist you with your business plan for China.

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