SINO-BRIDGE
Consulting Group

China Business Advisory

2011 Issue 11 **November 2011**

TABLE OF CONTENT

Fundamental changes to tax system in Shanghai

Further to what has been said in our last edition, a series of regulations (Caishui [2011] No. 110 and No. 111) were released officially by State Administration of Taxation ("SAT") and Ministry of Finance ("MOF") jointly on 16th November about the pilot program in Shanghai to replace Business Tax ("BT") by Value Added Tax ("VAT") for certain industries from 1st January, 2012. A special press conference was organized by SAT and MOF together the next day to brief attendees on the necessary background information and the motive and target of the reform. This is a fundamental change to the Chinese VAT system.

The regulations announced include the pilot scheme, the implementation measures and the rules on detailed operation as well as the policy for transition. At the first phase, VAT, at different tax rates, will replace BT in Shanghai for transportation and certain service sectors which are closely related to the manufacturing industry. Examples of these sectors are

- services related to R&D, technology, IT, culture creativity, logistics assistance, assurance and consulting (subject to VAT rate of 6%)
- water, air, pipe and land transport (subject to VAT rate of 11%),
- leasing of tangible movable assets (subject to VAT rate of 17%)

All tax payers whose annual taxable service turnover is more than RMB5 million have to register to be a General Tax Payer. Those who have a lesser turnover will be subject to the one VAT tax rate of 3% not eligible for setoff against input VAT. These new regulations will also apply to foreign service providers who render relevant service to Chinese domestic customers.

It is expected that the changes will in most cases reduce the tax burden of enterprises. We advise our clients to study the new regulations in detail and review their whole business operation to take maximum advantage of the new provision in addition to the need to be well prepared for being compliant upon commencement of the new rules.

Revision on VAT and BT Implementation Rules

In order to relieve the tax burden on small tax payers, MOF issued its Decree No. 65 on 28th October, 2011 to revise the thresholds for the need to account for VAT and BT highlighted in the exhibit below:

Tax	Tax Payer	Previous Threshold (RMB)	New Threshold (RMB)
VAT	Who sells products (Monthly Turnover)	2000 - 5000	5000 - 20000
	Who provides services (Monthly Turnover)	1500 - 3000	5000 - 20000
	Who pays tax per time (Daily Turnover)	150 - 200	300 - 500
BT	Who pays tax per period (Monthly Turnover)	1000 -5000	5000 - 20000
	Who pays tax per time (Daily Turnover)	100	300 - 500

Clarification on registration of foreign-invested partnership

The National Bureau of Statistics ("NBS") and the State Administration of Industry and Commerce ("SAIC") jointly released a notice, Guotongzi [2011] No. 86, to stipulate the registration type for foreign-invested partnership. This aims to specify and clarify the Administration Measures on Registration Foreign-invested Partnership in China, which was announced by the State Council at the end of 2009, and the Regulation on Registration of Foreign-invested Partnership publicized by SAIC at the beginning of 2010. It is expected that this will facilitate and unify the registration procedures at different locations in the state.

Accounting Standard for Small Enterprises released

MOF issued a notice, Caikuai [2011] No. 17, on 18th October, 2011 for the Accounting Standard for Small Enterprises to become effective from 1st January, 2013, replacing the previous version announced in 2004. This new development, while helping them with the standard practice for accounting recognition and measurement, is intended to reduce the burden of financial reporting on small companies and help them to put more resources on business development.

Service Highlight

The pilot program of tax reform in Shanghai sent out a clear signal that Beijing is taking a strategic step to rationalize its current tax system for the benefits of the long term economic development of China. We believe this will help to mitigate the existing tax burden on tax payers to different extent. Should you need our assistance to this end, please call Miss Mary Li, our Marketing Executive, on +852 3579 8745 or email her at maryli@sinobridge-consulting.com.

Our China Investment Business Advisory Team

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

Shenzhen
Room B02, 19/F, Petrel Hotel,
No.3002 Jiabin Road,
Shenzhen, PRC 518001

Guangzhou
Room 1601D01,16/F ViLi International, 167 Linhexilu, Tianhe District, Guangzhou PCR 510000

Shanghai
Room 17C, Jin Cheng Building , No. 15 Xiang Cheng Road, Lujiazui Finance & Trade Zone,
Shanghai, PRC 200122

Lyon Odiceo
115 Boulevard Stalingrad – BP52038,
69616 Villeurbanne Cedex, France

Company Website:
www.sinobridge-consulting.com

General:
Tel: (852) 3579 8745
E-mail: info@sinobridge-consulting.com