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China upholds Corporation Income Tax policies in favour of technologically advanced service enterprises

China's State Council has recently approved continuation of preferential policy in favour of technologically advanced service enterprises. In this regard, Caishui [2014] No.59 provides that enterprises engaged in outsourcing services in twenty-one cities including Beijing, Shanghai and Guangzhou shall be entitled to the following preferential Corporate Income Tax treatment ("CIT") during the trial run period from1st January, 2014 to 31st December, 2018:

- Enterprises providing technologically advanced services, upon accreditation, shall be subject to a reduced CIT rate at 15%; and
- Qualified expenditure on staff education, not exceeding 8% of their gross wages, will be deductible against current year's income tax liability. Qualified expenditure in excess of 8% of their gross wages can be carried forward for future deduction.

In order to enjoy the preferential CIT rate, the enterprise must satisfy certain requirements:

- The enterprise must engage in, at least, one technologically advanced service, employing advanced technology or having strong research and development ability;
- The enterprise must be incorporated and have a business presence in a district, county,

county-level city or other administrative division of any of the 21 stipulated cities.

- The enterprise has the status of a legal person;
- At least half of the workforce of the enterprise have attained college or higher qualifications.
- Income derived from technologically advanced services accounts for over 50% of the turnover of the enterprise in that year; and
- Income earned from offshore outsourcing services shall not be less than 35% of the turnover of the enterprise.

More sectors open to foreign investors

China is proposing to remove the number of sectors restricted to foreign investors. After due solicitation of public opinion, guidelines will soon be submitted to the State Council and for them to come into force by the end of the year. The draft, which has been posted on the National Development and Reform Commission website, reduces the number of restricted sectors from 79 to 35.

Newly relaxed sectors are going to include: steel, ethylene, refining, papermaking, coal chemical equipment, automotive electronics, lifting appliances, electric transmission and transformation equipment, branch railway lines, subways, international ocean shipping, e-commerce, finance companies and chain stores.

In sectors such as papermaking, automotive electronics, and yacht design and manufacturing, the requirement of having Chinese capital participation has been taken away. The number of sectors which are currently limited to joint ventures and partnerships will be reduced.

It can be seen that the move will further reinforce the establishment of a free market. Amongst all, the development in China of industries like modern agriculture, high technology, advanced manufacturing, energy efficiency and environmental protection, new energy and modern service will be significantly boosted.

Reports demanding information on outbound investments and related income by resident enterprises

Anannouncement by China's State Administration of Tax regarding information on outbound investments and related income to be reported by resident enterprises [2014] No. 38 (the Announcement) has come into effect on 1st September, 2014. It demands regular reporting of outbound investments and annual reporting of income earned abroad. Such reporting requirements apply to PRC tax resident enterprises, as well as non-PRC tax resident enterprises that have a business establishment in China and derive income that is in effective connection with such business establishment.

The Announcement stipulates the following two reporting obligations on the part of PRC tax residents.

- Foreign investment reporting obligation arises when PRC tax residents have acquired directly or indirectly 10%, or above, shareholding in foreign companies. A statement for participation in foreign enterprises by resident enterprise has to be filed.
- Foreign-earned income and other information about controlled foreign enterprises need also to be reported on an annual basis.

Any relevant enterprise failing to meet the new reporting obligations will be subject to tax adjustments. In this light enterprises in China should pay attention to the need to restructure the operations (such as their function, the way decision is made and the participation in management, etc.) of their foreign subsidiaries. In case the place of effective management is held to be located in China despite its incorporation outside China, the relevant company could be deemed a PRC tax resident and its global income be subject to PRC CIT.

China reform encourages mergers and private investment in shipping industry

China has issued further guidance, encouraging mergers and attracting private investment, in an attempt to boost and modernize her shipping industry.

The global shipping industry has been struggling to recover from a prolonged slump since the global financial crisis in 2008. China's Ministry of Transport has now laid downiness website how reforms will be put into place, expressing its ambition to achieve most of the targets in the coming four years. It has published a set of guidelines on how to support and develop the Chinese shipping industry.

Foreign companies will now be allowed to set up companies in China (Shanghai) Pilot Free Trade Zone without involving any Chinese joint venture partners. Also, qualified Chinese companies will be encouraged to expand their businesses abroad.

Service Highlight

It is evident that the Chinese government is becoming keener on simplifying the process for business operation in China. We are pleased to be in a position to help investors to take advantage of this to identify and explore investment opportunities in their best interests. We take pride in rendering all the advice our clients need to enable them to manage their investment in China with due success. Our Marketing Executive, Ms. Yannes Lam, would like to hear from you at (852) 3579 8745 or yanneslam@sinobridge-consulting.com as to how we can assist you to put your business plan to work beyond your expectation.

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