

China Business Advisory

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The 60th anniversary of the founding of the People's Republic of China

The biggest-ever military and civilian parade in the morning on October 1st, 2009 kicked off a series of campaigns to celebrate the 60th anniversary of the People's Republic of China. The parade started at 10:00am at Tian'anmen Square and showcased a favorable image of the country's armed forces and tremendous progress that the PRC had achieved in the past six decades, especially the latest 30 years of opening-up and reform. President Hu Jintao said in the celebration ceremony: "People from all ethnic groups are full of confidence to the great rejuvenation of the country and cannot be prouder of the development and progress of our great mother land." A grand evening gala was held on the same day as well. Most people all over the country enjoyed an 8-day holiday from October 1st to 8th.



Great changes have taken place in China since 1949, especially in the economy. In the past 60 years, hundreds of millions of people have been lifted out of poverty and the country has grown from a relatively poor country to the 3rd largest economy in the world. The country was not spared from the global financial crisis, which hit the world economy in 2008. But China's economy expanded more than 7 percent in the first nine months in 2009, making Beijing's full-year target of 8 percent growth more achievable, according to the official figures released in October 2009. Economic experts said that China's economy had bottomed out from the worst time and the country is expected to be one of the first ones who could go out of the global recession.

Overtime wages calculation for the holiday

As the National Day holiday and Mid-autumn Festival overlapped this year in China, the government extended the usual "Golden Week" holiday to an 8-day one, which was called "the longest golden week in the history", from October 1st to 8th. However, how to arrange the overtime pay for the people who still need to work in the holiday? We'd like to give you some specific information as below:

In accordance with the announcement of the government, October 1st, 2nd, 3rd, 6th were statutory holidays while October 4th, 5th, 7th, 8th were general holidays. According to the "Labor Law", working during statutory holidays and general holidays would attract triple and double pay or the equivalent of compensating leave respectively. Overtime pay is calculated with reference to basic daily or hourly pay based on a 21.75-day working month and an 8-hour working day.

Recruitment of volunteers for the 2010 Shanghai World Expo

More than 500 volunteer applicants for the 2010 Shanghai World Expo started their first interview on September 20th, 2009. About 80% of them are college students. The interview includes a psychological test which requires them to draw a picture of a tree, through which their personality and qualification for the prospective task could be assessed.

The New Chinese Special Tax Adjustments (“STA”) Rule – General Anti-Avoidance Rules (“GAAR”)

The GAAR concept was recently introduced by the Chinese tax authority for the first time and it indicated that the government and tax authority are getting more and more concerned about and confident in handling complicated transfer pricing issues and they are getting closer of approaching the international practice. These rules allow the tax authority to investigate companies suspected of engaging in tax avoiding activities. All the GAAR investigations must be reported to State Administration of Taxation (“SAT”) which shows the intention of the tax authority to collect and accumulate necessary experience during the implementation.

We have issued a series of brief discussions on the main functions of STA. We hope you find them helpful for planning and implementing your business strategies. You are always welcome to contact us for further assistance.

Withholding tax on dividends paid to non-resident companies

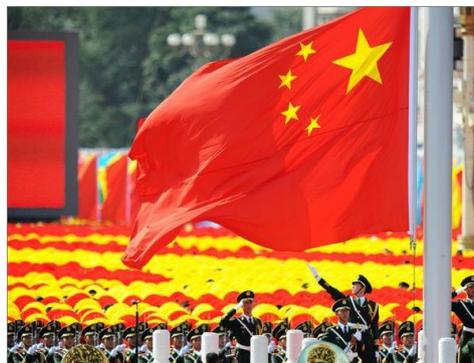
According to the new Corporate Income Tax (“CIT”) Law and its Detailed Implementation Rules (“DIR”) which took effect from January 1st, 2008, a non-resident company who receives dividends from China has to pay withholding tax at a rate of 10%. A better rate may be applicable under the Double Tax Treaty (“DTT”) between China and the relevant country/region in which the recipient of the dividends resides. For example, the DTT between China and its Hong Kong SAR entitles dividend recipients resident in Hong Kong to be subject to only a withholding tax rate of 5%. However, the Chinese government has been making efforts to regulate the application of DTT benefits. As a result, circulars Guoshuifa [2009] No. 81 and Guoshuifa [2009] No. 124 were issued in February and August 2009 by SAT to clarify the relevant criteria, requirements and procedures, both in respect of dividend specifically and the general preferential treatments of DTT. From our observation, the Chinese government has been more and more concerned about the taxes on non-resident companies and issued lots of circulars in this regard. All of these would increase the regulatory compliance burden on the relevant companies as well as taxes to be paid.

One important change about Business Tax (“BT”)

One of the significant changes emerging from the “Provisional Regulations on Business Tax” which was effective from January 1st 2009, is the extension of the scope of Business Tax to cover services performed overseas. Grandfathering provision however was issued in August to address some of the concerns. It is expected that more guidance or supplementary notes will be released by the authorities regarding the implementation of this new piece of BT regulation. We will follow up on this and update CBA readers accordingly.

Service Highlight

We face one of the greatest challenges to the world economy in modern times, a crisis that erupted about this time last year. To now China has rebounded strongly from the crisis, leading the global recovery. This may be the right time to be brave with your business expansion plan towards China to benefit with it from the impacts it could have on the global economic growth. Our professional team is always ready and available to provide you with advice and assistance you need to this end. We are eager to hear from you and to succeed with you.



Visit http://sinobridge-consulting.com/china_consulting.htm or email us at info@sinobridge-consulting.com to find out how we can help.

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