

# China Business Advisory

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### 2. Service Highlight

## New Pilot Program for Foreigner's Work Permit Administration

According to the State Administration of Foreign Experts Affairs ("SAFEA"), there will soon be significant updates with the existing work permit administration systems for foreign individuals

coming to work in China. SAFEA and the State Ministry of Human Resources and Social Security ("MHRSS") are currently the authorities that are responsible for the administration of work permits for expatriates. Under the existing work permit administration systems, Foreign Expert Certificates are granted to skillful and professional foreign talents by SAFEA while MHRSS is in charge of granting Alien Employment Permits to other foreigners working in China. Under the new program, the above two systems will be integrated into one new pilot administrative program administered by SAFEA where only one certificate, the Work Permit Card will be granted to qualified foreigners.

From October 2016 to March 2017, areas and cities including Beijing, Tianjin, Hebei, Shanghai, Anhui, Shandong, Guangdong, Sichuan, and Ningxia will be implementing the new pilot program for the very first time. The implementation of the revised system will extend to the whole nation in April 2017. The existing issued Foreign Expert Certificates and Alien Employment Permits will remain valid in the pilot areas.

Under the new program, a points-based system will be applied for the categorization of foreign employees. The three categories are as below:

- Category A covers top talents
- Category B covers professional talents; and
- Category C covers non-technical workers.

This categorization approach with different procedures and requirements implies that China is to lean and rationalize the administration to attract more foreign talents especially the highly-skilled ones. We advise affected companies and foreign individuals to pay due attention and take proper actions in order to adapt to the new arrangement.

## **Preferable Change of Consumption Tax on Cosmetics**

On 30<sup>th</sup> September 2016, three connected announcements, Caishui [2016] No.103, Cai Guan Shui [2016] No.48 and Customs Announcement [2016] No.55, were released by the Ministry of Finance (“MOF”), the State Administration of Taxation (“SAT”) and the General Administration of Customs (“GAC”) stating that the consumption tax policies for production and import of cosmetics will be revised from 1<sup>st</sup> October 2016 onward.

According to Caishui [2016] No.103, the coverage of the consumption tax will be less extensive following the revision as it will no longer be levied on all cosmetics. Under the revised regulations, only high-end cosmetics will be subject to consumption tax. High-end cosmetics include beautifying and decorative makeups, skin-cares and complete cosmetics sets whose after-tax price at the import or production step is not less than CNY10 per milliliter (gram) or CNY15 per piece (sheet). In addition to the reduced scope of the consumption tax, the tax rate will also fall from 30% to 15%.

These new regulations aim to optimize the previous approach of consumption tax on cosmetics where a single rate was applied to all products despite a large range in selling price. Consumers and manufacturers of non-luxury cosmetics are expected to benefit from this revised arrangement.

## **Improved Income Tax Policies relating to Stock Incentives and Technological Equity Contributions**

The Ministry of Finance (“MOF”) and the SAT jointly released a circular, Caishui [2016] No.101 (“the Circular”), on 20<sup>th</sup> September 2016 to clarify the new tax rules on stock incentives and technological equity contributions. In order to support the promotion of mass entrepreneurship, innovation and transformation of the economic structure, the Circular sets out certain preferential tax treatments for stock incentives of both listed and non-listed companies and technological equity contributions. The Circular took effect from 1<sup>st</sup> September 2016.

The Circular provides that if the stock options, equity options, restricted stocks and equity rewards granted to employees by non-listed companies satisfy the specified conditions, deferred tax payment can be adopted upon filing with relevant tax authorities. In addition, neither receipt of the options nor exercise of the options would give rise to Individual Income Tax (“IIT”). Receipt of share awards or restricted stock would not be subject to IIT as well. Employees will simply pay tax upon the transfer of equity at a rate of 20% after relevant costs have been deducted. Criteria of eligibility are set in the Circular. Moreover, the deferral period for IIT payment on income from stock options, restricted stock and equity awards granted by listed companies has been lengthened from 6 months to 12 months.

Enterprises and individuals who contribute rights in technology in the form of capital contribution in domestic resident enterprises are also permitted to choose deferred taxation treatment under the Circular. Under this treatment, the payment of income taxes is not required until the shares have been transferred where the income tax will be based on the balance of income after deducting the related technology costs and other reasonable expenses.

## Service Highlight

China has managed to sustain strong and long-time economic growth. It remains one of the most attractive markets to investors from different parts of the world to date. While the Chinese government keeps improving its domestic regulations and simplifying its administrative processes to enhance the business environment, it is important that investors are up to date with the changes and can adapt accordingly. Sino-Bridge is always well prepared and pleased to help investors to exploit their full potential. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or [kimmechan@sinobridge-consulting.com](mailto:kimmechan@sinobridge-consulting.com) to learn of how we could assist you with your business.

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