

China Business Advisory

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Preferential Tax Policies for Small Scale Enterprises

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The Ministry of Finance (“MOF”) released Caishui [2015] No. 96 on 25th August 2015 extending the application of the preferential tax policies for Small Scale Enterprises (“SSEs”) to 31st December 2017. Further, Announcement [2015] No. 61 was released by Statement

Administration of Taxation (“SAT”) on 10th September 2015 to specify the implementation plan for such policies, the highlights of which include:

- SSEs with annual taxable income of no more than RMB300,000 will be allowed to have 50 percent of its taxable income subject to the Corporate Income Tax (“CIT”) rate of 20 percent, referred to as Halved Tax Policy taking effect from 1st October 2015 to 31st December 2017.
- Small-Scale Value Added Tax (“VAT”) Taxpayers with monthly taxable turnover of no more than RMB30,000 will be exempt from VAT from 1st October 2015 to 31st December 2017.
- Business Tax Taxpayer with monthly taxable turnover of no more than RMB30,000 will be exempt from Business Tax from 1st October 2015 to 31st December 2017.

The extension of the preferential tax policies aims to further support the development of SSEs to boost the economic growths of Mainland China.

Implementation Plan for Random Tax Audit

The State Administration of Taxation (“SAT”) released Shuizongfa [2015] No.104 on 25th August 2015 for the implementation of random tax audit, the subject of Guobanfa [2015] No. 58.

There will be two databases to be built:

- The regular database of tax audit targets, to be completed before 31st December 2015, captures information including profits, tax payments and penalties records for the past three years.
- The irregular database, to be completed before 31st March 2016, is geared for high risks enterprises.

Tax audit will be undertaken on the following basis:

- Targeted audit on taxpayers falling into specific conditions; and
- Non-targeted audit on taxpayers selected at random.

Tax Audit Department can conduct the inspections directly or request the targeted taxpayers to perform the self-inspection beforehand.

The chance of being subject to tax audit for key corporate taxpayers will be around 20 percent. Hence in principle there will be tax audit conducted on these enterprises once every five years. Less than 3 percent of non-key corporate taxpayers are expected to undergo tax audits in any one year.

The results of the random tax audit will be posted and shared in the relevant tax and social credit platforms for public information and the awareness of other regulatory bodies for the imposition of penalties relevant to their jurisdiction.

CBA readers are recommended to perform tax compliance review and seek advice in good time on how to avoid undue penalties.

Taxation Cooperation Agreement between Mainland China and Taiwan

After six years of negotiations, the Taxation Cooperation Agreement between Mainland China and Taiwan was signed on 25th August 2015 and aimed to take effect from 1st January 2016. The following are the summary of this agreement:

- **Preferential Withholding Tax (“WHT”) Rates**
 - ✓ WHT at the rate of 5 percent will be applied on dividends where relevant conditions are fulfilled
 - ✓ WHT at the rate of 7 percent will be applied on interest payments and royalties
 - ✓ No WHT on capital gains on share transfer of certain companies

- **Permanent Establishment (“PE”) and Business Profits**

No tax will be levied on business profits derived from Taiwan if no PE is deemed to exist in Mainland China. The time threshold of constituting a PE for construction or installation projects is 12 months while that for service provision is 183 days within any consecutive 12-month period.

- **Anti-avoidance**

General anti-avoidance provisions apply to tackle tax evasions and avoidance.

- **Information Exchange**

Exchange of information is limited to tax related issues. No application for information exchange for other criminal offences is allowed.

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. 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 this end and beyond.

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