

China Tax Weekly Update

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Relevant industries: Financial industry

Relevant companies:

Enterprises which involved in Shenzhen-HK Stock Connect

Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced

You may click [here](#) to access full content of the circular.

China approves Shenzhen-Hong Kong Stock Connect

Based on the news from the central government, Premier Li Keqiang informed a State Council executive meeting on 16 August 2016 that the preparations for the launch of Shenzhen-Hong Kong Stock Connect mechanism have been basically completed. The State Council has approved the *Implementation Plan of the Shenzhen-Hong Kong Stock Connect*. The Shenzhen-Hong Kong Stock Connect mechanism complements the Shanghai-Hong Kong Stock Connect initiative launched in 2014 and allows for two-way trading between Hong Kong and Mainland China.

In the initial period of operation of Shenzhen-Hong Kong Stock Connect, the investors eligible to trade shares that are listed on the ChiNext Board of Shenzhen Stock Exchange (SZSE) under the Shenzhen Stock Connect will be limited to institutional professional investors as defined in the relevant Hong Kong rules and regulations. Subject to the resolution of related regulatory issues, other investors may subsequently be allowed to trade such shares.

There will be no aggregate quota under Shenzhen-Hong Kong Stock Connect, and the aggregate quota under Shanghai-Hong Kong Stock Connect will be abolished with immediate effect on the date of this announcement. The Shenzhen-Hong Kong Stock Connect daily quota will be the same as that currently under Shanghai-Hong Kong Stock Connect, that is, a daily quota of RMB13 billion is set for the Shenzhen Stock Connect and a daily quota of RMB10.5 billion is set for the Hong Kong Stock Connect under the Shenzhen-Hong Kong Stock Connect.

(Quota is calculated as the net amount of buying netting off selling. Aggregate quota is the total amount of fund that flows into the Shanghai Stock Exchange through Shanghai-Hong Kong Stock Connect. The aggregate quota under the Shanghai-Hong Kong Stock Connect was set at RMB300 billion. When the remaining balance of aggregate quota is less than the daily quota, i.e., RMB13 billion for Shanghai Stock Connect, the Shanghai-Hong Kong Stock Connect will not accept any further buying orders on that day. Only when the balance of aggregate quota is released and exceeds the daily quota because of the acceptance of selling orders, buying orders will be accepted again. The abolition of aggregate quota involves a major liberalisation for foreign investors investing in listed securities in China.)

Other issues concerning Shenzhen-Hong Kong Stock Connect which are not described shall be dealt with by reference to the [Joint Announcement on Shanghai-Hong Kong Stock Connect](#) dated 10 April 2014. It should take approximately four months to complete the above-mentioned preparations.

* It is not clear at the moment whether the tax policies on Shanghai-Hong Kong Stock Connect under [Cai Shui \[2014\] No. 81](#) also applied to the Shenzhen-Hong Kong Stock Connect. We will also follow up the full text of the implementation plan that has yet to be published by the government.

Reference: Cai Guan Shui [2016] No. 36

Issuance date: 1 August 2016

Effective date: 1 January 2016

Relevant industries:

Animation industry

Relevant companies:

Animation enterprises

Relevant taxes: Custom Duty / VAT

Potential impacts on businesses:

- Effective tax burden reduced

You may click [here](#) to access full content of the circular.

China to further push forward the animation industry

On 1 August 2016, the Ministry of Finance (MOF), the General Administration of Customs (GAC) and the State Administration of Taxation (SAT) jointly issued Circular Cai Guan Shui [2016] No. 36. This clarifies that eligible goods imported for animation development and production by Chinese animation enterprises shall continue to benefit from an import tax exemption. The relevant provisional rules have also been released.

- Goods that are imported for independent development and production of animation products by animation enterprises which are recognized by relevant department of the State Council could be exempt from import Customs Duty and import VAT from 1 January 2016 to 31 December 2020, on condition that the goods fall under the List of Goods Imported for Animation Development and Production by Animation Enterprises Eligible for Tax Exemption
- Under the provisional rules, recognized animation enterprises must meet the following criteria:
 - ❖ Meet the basic standards for recognition of animation enterprises developed by the Ministry of Culture (MOC) and other relevant authorities
 - ❖ Have the qualification and capacity for independent development and producing the animation products
- The animation enterprises who meet the aforesaid criteria shall apply for tax exemption with the MOC before the end of September every year. The MOC will review the application jointly with MOF, GAC and SAT. Annual review, which shall be carried out by the MOC, apply to the animation enterprises who have obtained the import tax exemption qualification

Reference: Cai Shui [2016] No. 82

Issuance date: 25 July 2016

Effective date: 1 January 2016 to 31 December 2018

Relevant industries:

Student apartments and canteens in colleges and universities

Relevant companies:

Enterprises operating student apartments and canteens in colleges and universities

Relevant taxes: Real Estate Tax, Stamp Duty, Business Tax, VAT

Potential impacts on businesses:

- Effective tax burden reduced

You may click [here](#) to access full content of the circular.

Continuation of existing tax incentives for student apartments & canteens

On 25 July 2016, The MOF and the SAT jointly issued Cai Shui [2016] No. 82 ("Circular 82"), which clarifies that certain tax incentives shall continue to be implemented for student apartment and canteens in colleges and universities.



- From 1 January 2016 to 31 December 2018, the student apartments in colleges and universities are exempt from real estate tax. Agreements for leasing of student apartments in colleges and universities concluded with the students of the colleges and universities shall be exempt from stamp duty
- The accommodation fee income of the student apartments of colleges and universities derived by the colleges and universities from the students in accordance with the fee criteria specified by the State shall be exempt from business tax from 1 January 2016 to 30 April 2016; After 1 May 2016, such income shall be subject to VAT exemption under the VAT reform

Student canteens

- The income derived by student canteens of the colleges and universities from providing the faculty members and students of the colleges and universities with catering services shall be exempt from business tax from 1 January 2016 to 30 April 2016; After 1 May 2016, such income shall be subject to VAT exemption under the VAT reform

The real estate tax and stamp duty, which ought to be exempt according to Circular 82 but which has been collected, shall be allowed to be credited against the relevant tax payable thereafter or be directly refunded to the taxpayer; The business tax which ought to be exempt but which has been collected, shall be refunded; The VAT which ought to be exempt but which has been collected, shall be credited against the VAT payable thereafter or be directly refunded to the taxpayer.

Reference: Cai Shui [2016] No. 73, No. 81 and No. 83 / SAT Announcement [2016] No. 51

Issuance date: 25 July 2016 to 7 August 2016

Effective date: 1 January 2016 to 25 July 2016

Relevant industries: All

Relevant companies: All

Relevant taxes: VAT

Potential impacts on businesses:

- Compliance costs reduced

You may click the circular titles to access full content of the circulars.

Further VAT implementation rules

In order to help better implement the new VAT rules Measures for Implementation of the Pilot Program of VAT Reform (Cai Shui [2016] No. 36, "Circular 36"). Recently, MOF and SAT further issued Circular 73, 81 and 83 to clarify the implementation period of tax policies for tea products sold in border area, photovoltaic power generation as well as certain industries. In addition, SAT also clarifies matters for issuance of VAT invoices by the insurance institutions for the Vehicle and Vessel Tax collected under entrustment in its Announcement 51.

- [MOF and SAT jointly issue notice on continually implementing the VAT policy for photovoltaic power generation \(Cai Shui \[2016\] No. 81, "Circular 81"\)](#)
 - VAT refund-upon-levy policy (50% of VAT will be refunded) shall apply to taxpayers selling electrical products self-produced through the use of solar energy from 1 January 2016 to 31 December 2018
- [MOF and SAT extend the period for implementing certain preferential tax policies \(Cai Shui \[2016\] No. 83, "Circular 83"\)](#)
 - Circular 83 clarifies the extension of valid period of preferential business tax and VAT policies for rural finance, agriculture-related loans in the agriculture, rural areas and farmers division of the Agricultural Bank of China, finance and insurance business handled on behalf of financial institutions by post enterprises and Xinjiang International Grand Bazaar Project. For income derived by China Post Group and its affiliated post enterprises for handling the finance and insurance business on behalf of financial institutions, shall be subject to VAT exemption, from 1 January 2016
 - The business tax which shall be exempted according to Circular 83 but has been collected, such business tax shall be refunded; The VAT which shall be exempted but has been collected, such VAT shall be allowed to be credited against the VAT payable thereafter or be directly refunded to the taxpayer
- [SAT issues notice regarding the issuance of VAT invoices by the insurance institutions for the Vehicle and Vessel Tax \(VVT\) collected under entrustment \(SAT Announcement \[2016\] No. 51, "Announcement 51"\)](#)
 - When collecting the VVT under entrustment and issuing the VAT invoice, the insurance institution as the withholding agent of the VVT shall indicate the information of the VVT collected under entrustment in the remarks column of the VAT invoice. The VAT invoice shall be used as the original voucher of accounting of the payment of VVT and late penalties by the taxpayer

- [MOF and SAT extend the period for implementing preferential VAT treatment of tea sold in border area \(Cai Shui \[2016\] No. 73, "Circular 73"\)](#)
 - The VAT policy stipulated in Cai Shui [2011] No. 89 ("Circular 89) shall be implemented through to 31 December 2018. Pursuant to Circular 89, the tea products that are self-manufactured and sold in border area by the listed tea manufacturing enterprises as well as the tea products that are sold in border area by the trading enterprises shall be exempted from the VAT
 - The VAT which shall be exempted according to Circular 73 but has been collected, such VAT shall be allowed to be credited against the VAT payable thereafter or be directly refunded to the taxpayer

Meanwhile, local tax bureaus also issued several announcements and interpretation to further clarify implementation issues for the VAT reform, mainly including the followings:

- [Tianjin State Tax Bureau \(STB\) issues notice on the issuance of VAT invoices for the revenue which Business Tax has been filed \(Jin Guo Shui Fa \[2016\] No. 125\)](#)
- [Guangdong STB issues notice on implementing application system for electronic \(internet\) invoices \(Guangdong STB Announcement \[2016\] No.16\)](#)
- [Jiangxi STB issues notice on VAT consolidated filing and payment for financial enterprises under the VAT reform \(Gan Guo Shui Han\[2016\] No. 14\)](#)

The State Council, the MOF and the SAT have recently issued many circulars for the implementation of Circular 36. You may click KPMG *China Tax Weekly Update* [Issue 13](#), [Issue 14](#), [Issue 15](#), [Issue 16](#), [Issue 17](#), [Issue 18](#), [Issue 19](#), [Issue 20](#), [Issue 21](#), [Issue 22](#), [Issue 23](#), [Issue 24](#), [Issue 25](#), [Issue 26](#), [Issue 27](#), [Issue 28](#), [Issue 29](#), [Issue 30](#) and [Issue 31](#) to understand the details.

* On the occurrence of Circular 36 announcement, KPMG immediately issued a series of China Tax Alerts to provide an overview of the high level policies and general impacts across all industries. Focusing on construction, real estate, finance and lifestyle services, at the same time, we also issued specific alerts for each of the three major industries affected by these changes. You may click the following links to read:

- [China Tax Alert: China's new VAT rates & rules –high level policies and general impacts across all industries \(Issue 9, March 2016\)](#)
- [China Tax Alert: China's new VAT rates & rules –Financial Services impacts \(Issue 10, March 2016\)](#)
- [China Tax Alert: China's new VAT rates & rules –Lifestyle Services impacts \(Issue 11, March 2016\)](#)
- [China Tax Alert: China's new VAT rates & rules -Real Estate & Construction industry impacts \(Issue 12, March 2016\)](#)

** In addition, the MOF and SAT issued Circular 68 to further clarify VAT treatment of services in regard of reinsurance arrangements, lease of immovable properties and non-academic education. Also, Circular 70 was issued to further clarify the VAT reform policies on financial industry. KPMG has issued two China Tax Alerts to detail the tax impact to reinsurance, insurance and financial services, you may click the following links to read:

- [China Tax Alert: New Circular clarifies China's VAT treatment of reinsurance arrangements \(Issue 17, June 2016\)](#)
- [China Tax Alert: New Circular expands upon China's VAT exemptions for financial services industry \(Issue 20, July 2016\)](#)

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Relevant industries: All
 Relevant companies: All
 Relevant taxes: All

Potential impacts on businesses:

- Risks of being challenged due to non-compliance issues increased
- Operational costs increased

You may click [here](#) to access full content of the circular.

SAT "names and shames" significant tax fraud cases

As mentioned in KPMG [China Tax Weekly Update \(Issue 16, May 2016\)](#), the SAT revised the Trial Measures for the Public Disclosure of Significant Tax Fraud Cases ("the Measures") in April 2016. The Measures set common criteria for nationwide disclosure of tax fraud cases under a 'name and shame' approach. Among the cases covered by the publication criteria are cases in which taxpayers: (i). falsely issue VAT special invoices or any other invoices to fraudulently obtain a tax refund for exports or to offset a tax amount; (ii). falsely issue more than 100 general invoices or the amount of the invoices exceeds RMB 0.4 million; and (iii). without authorization print, counterfeit or alter invoices, illegal manufacture of special anti-fake invoice products and counterfeit invoice printing seals.

The SAT, on 13 August 2016, made public the significant tax fraud cases which occurred in 2016 H1 on its official website. 358 cases are blacklisted, 349 of which are cases in which taxpayers evaded taxes, falsely issued VAT special invoices, obtained refunds by any other deceptive means; 9 of which are cases in which taxpayers issued fake invoices.

Tax fraud cases are divided into eight categories including tax evasion, non payment of outstanding tax, falsely issuing special VAT invoices etc., which shall be blacklisted; and tax authorities shall expose the basic information of violating parties through the tax authority website, newspapers, radio, television in accordance with the provisions. The blacklist will also be shared with other 20 authorities including the Ministry of Public Security, MOF, the National Development and Reform Commission. The relevant authorities may jointly take 18 disciplinary measures against the violators, such as stop them from leaving China, limit their high consumption, etc. In addition to the punishment, SAT also create credit repairing mechanism so as to provide opportunity for dishonest enterprises to correct their mistakes.

* Prior to this, SAT has exposed 10 fraud cases involving export tax refunds on its official website on 17 June, among the cases, the largest tax fraud amount exceeds RMB 80 million. You may click [KPMG China Tax Weekly Update \(Issue 24, June 2016\)](#) for details.

** Tax illegal information of enterprises / natural persons will be made public in the governmental website – "Credit China", while the blacklist will be disclosed through SAT's information bulletin, newspaper, broadcast, television, etc.

Reference: Shui Zong Han [2016] No. 389
 Issuance date: 4 August 2016
 Effective date: 4 August 2016

Relevant industries: All
 Relevant companies: All
 Relevant taxes: N/A

Potential impacts on businesses:
 • Operational costs reduced

You may click [here](#) to access full content of the circular.

SAT forbids tax officials from intervening in tax intermediary's operations

On 4 August 2016, the SAT issued Shui Zong Han [2016] No. 389 ("Circular 389"). This requires that special campaigns, aiming to prevent tax officials from illegally intervening in a tax intermediary's operations, are to be carried out among the tax authorities throughout the country. Circular 389 clarifies the following:

- If assurance reports are not required in the relevant laws, regulations, department rules and SAT regulatory documents (including the documents issued together with other authorities), local tax authorities shall not request such reports from taxpayers without authorization in the process of implementation. Where such requirements exist, the local tax authorities shall amend or abolish the relevant documents
- Local tax authorities (including tax offices and tax service halls) shall not go beyond the relevant laws, regulations, department rules and SAT regulatory documents (including the documents issued together with other authorities), to collect the assurance report (either in softcopy or hardcopy) from the taxpayer, especially the assurance report for CIT annual filing with costs for small enterprise with low-profit and enterprise whose CIT are collected on a deemed basis

Reference: Beijing GOV Order No. 271 / Henan GOV Order No. 174
 Issuance date: 11 July 2016 / 12 July 2016
 Effective date: 1 September 2016 / 12 August 2016

Relevant industries: All industries in Beijing
 Relevant companies: All enterprises which are located in Beijing
 Relevant taxes: N/A

Potential impacts on businesses:
 • Compliance costs due to regulatory uncertainties reduced
 • Risks of being challenged due to non-compliance issues increased

You may click the circular titles to access full content of the circulars.

Local governments enhance tax information sharing

Recently, several local governments issued measures to support tax collection. The measures aim to further accelerate information sharing for tax collection, secure tax revenues and protect the legitimate rights and interests of taxpayers.

[Beijing issues Measures on Safeguarding Tax Collection \(Beijing GOV Order No. 271\)](#)

On 11 July 2016, the people's government of Beijing issued Measures on Safeguarding Tax Collection. The measures provide a further clarification on provision of tax-related information and assistance of tax enforcement among other tax collection issues, and will take effect from 1 September 2016. The main contents are follows:

- Local government departments shall provide tax-related information, obtained in the process of fulfilling their duties, to the tax authorities. Such tax-related information includes:
 - ❖ Enterprise set-up registration, alteration registration, de-registration information. Also covered is equivalent information for public institutions, social organizations, individually-owned businesses and representative offices of foreign enterprises
 - ❖ Registration and recordal filing of equity change of enterprises, outbound investments etc.
 - ❖ Registration of land ownership. Approval, assignment and transfer of construction land
 - ❖ Newly-constructed commercial housing transaction, stocking house transaction, house registration, compensation for house expropriation etc.
 - ❖ Recordal filing for construction project contract, construction enterprises from another part of China, completion of a construction project etc.

- ❖ Registration and recordal filing for patent right and copyright
- ❖ Social securities information such as basic pension insurance, basic medical insurance, injury insurance, unemployment insurance, maternity insurance
- ❖ Name list of recognised high and new technology enterprises, contracts for entrusting external parties for research and development that have been authenticated and registered etc.
- ❖ Entry and exit of foreigners
- ❖ Information from accommodation industry
- ❖ Disable person and their employment
- ❖ Motor vehicle registration and operation
- ❖ Transaction of forest rights, cultural rights and interest, intellectual property rights, financial assets, mining rights and others
- ❖ Exploitation of mineral resources such as mines, geothermal water and mineral water etc.
- ❖ Commercial performance, lottery sales, charitable donations and others
- ❖ Other tax-related information
- Tax authorities shall broaden the channels to collect tax-related information, such as actively obtaining information from people's court, financial regulators, commercial banks and other financial institutions.

On 12 July, the people's government of Henan also issued [Measures on Safeguarding Tax Collection \(Henan GOV Order No. 174\)](#) to further clarify the relevant provisions, effective from 12 August 2016.

Reference: Jing Ke Fa [2016] No. 465

Issuance date: 15 August 2016

Effective date: 15 August 2016

Relevant industries: Hi-tech industry in Beijing

Relevant companies: High-tech enterprises in Beijing

Relevant taxes: CIT

Potential impacts on businesses:

- Compliance costs due to regulatory uncertainties reduced

You may click [here](#) to access full content of the circular.

Beijing launches 2016 high-tech enterprises recognition

As mentioned in KPMG [China Tax Weekly Update \(Issue 28, May 2016\)](#), the recognition of Shanghai high and new technology enterprises (HNTEs) officially launched from 15 July 2016.

On 15 August, Beijing HNTEs Recognition Group issued Jing Ke Fa [2016] No. 465. This clarifies the matters in relation to recognition of HNTEs for year 2016 and change of enterprise name. The two-round recognition work are set for year 2016 and will be due on 15 September 2016 and 31 October 2016 respectively. The recognition will be carried out on the basis of new state measures for recognition of HNTEs (Guo Ke Fa Huo [2016] No. 32, "New Measures") as well as its implementation guidance (Guo Ke Fa Huo [2016] No. 195). The notice clarified the schedules and procedures.

* With regard to the brief contents of the New Measures and its implementation guidance, you may click to access KPMG [China Tax Weekly Update Issue 5, Issue 25](#).

** With regard to the details and tax impact of the New Measures and its implementation guidance, you may click the following links to access KPMG China Tax Alerts:

- ❑ [China Tax Alert: New Version of Administrative Measures for Recognition of High and New Technology Enterprise \(HNTE\) Released \(Issue 5, February 2016\)](#)
- ❑ [China Tax Alert: Guidance for Recognition of High and New Technology Enterprise \(HNTE\) \(Issue 19, July 2016\)](#)

Reference: Hu Fu Ban Fa [2016] No. 30

Issuance date: 5 August 2016

Effective date: 5 August 2016

Relevant industries: All

Relevant companies:

Enterprises in Shanghai pilot FTZ and Pudong new area

Relevant taxes: N/A

Potential impacts on businesses:

- Risks of being challenged due to non-compliance issues increased
- Operational costs increased

You may click [here](#) to access full content of the circular.

Shanghai enhances contemporaneous and follow up supervision for pilot FTZ and Pudong new area

On 5 August 2016, the people's government of Shanghai issued Hu Fu Ban Fa [2016] No. 30 ("Circular 30"). This aims to facilitate the establishment of contemporaneous and follow up supervision system for Shanghai Pilot Free Trade Zone (FTZ) and Pudong New Area. Main finance and tax related tasks set out in Circular 30 are as follows:

Self-discipline	<ul style="list-style-type: none"> • Encourage and support enterprises engaged in internet platform (such as e-commerce) to provide a fair, equitable and transparent credit rating service to transacting parties, record and open transaction and rating information in an objective manner, push the market participants to strengthen self-discipline • Implement the three business principles of "understanding the business, understanding the clients and conducting due diligence" so that commercial banks may play a role in monitoring the cross-border capital flow and other matters. Urge the commercial banks to perform their responsibilities as third-party custody institutions, intensify the monitoring and controlling of internet finance, equity investment and other funds
Autonomy	<ul style="list-style-type: none"> • Establish the credit information connection and sharing mechanism between the government and industrial associations (chambers of commerce). Support the industrial associations (chambers of commerce) to carry out the industrial credit rating, establish the enterprises' credit files, improve the industrial credit system by way of government purchases etc. (This credit rating may be referenced by banks when doing their own loan credit rating.)
Social supervision	<ul style="list-style-type: none"> • Drive governments to open the credit data, foster and develop the social credit rating organisations and encourage the credit rating and third-party assessment
Government regulation	<ul style="list-style-type: none"> • Market players, who violate prohibitive provisions in laws and regulations or fail to meet the mandatory standards of energy conservation and environmental protection, work safety, food and drug, project quality, are subject to investigation and punishment. In serious cases, the issuing authorities shall revoke the relevant licences or permits. Streamline and improve the procedure for enterprises' de-registration, which shall be piloted in individually-owned businesses, businesses yet to commence operations, and businesses without creditor's rights and liabilities.

In addition to the above, Circular 30 also set out the tasks and safeguard measures in aspects of strengthening the special supervision, innovating regulation system and methods.



Beijing ceases to implement Provisional Regulations on Real Estate Tax

On 15 May 2016, the people's government of Beijing issued GOV Order No. 269 and announce that Beijing ceases to implement the Provisional Regulations on Real Estate Tax (RET) from the date of promulgation. (Beijing has been subject to the Provisional Regulation on RET since 1998. This does not mean that RET is no longer exist in Beijing. It is only that the old implementation rules on RET is abolished.)

You may click [here](#) to access full content of the circular.

Corporate Income Tax (CIT) policies for China Central Television's income from advertisement and cable TV clarified

On 28 July 2016, the MOF and the SAT jointly issued Cai Shui [2016] No. 80. This clarifies that China Central Television's income from advertisement and cable TV shall continually be subject to CIT exemption from 1 January 2016 to 31 December 2017.

You may click [here](#) to access full content of the circular.

For any enquiries, please send to our public mailbox: taxenquiry@kpmg.com or contact our partners/directors in each China/HK offices.

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