



# China Tax Weekly Update

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

Potential impacts on businesses:

- Risks of being challenged due to cross-border tax anti-avoidance arrangements increased

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

## G20 and B20 summits held in Hangzhou

The G20 Leaders' Summit was held in Hangzhou, China from 4 to 5 September 2016, and the G20 subsequently released a [Communique](#).

The Communique reaffirmed the consensus in relation to international tax cooperation which were reached at the G20 Finance Ministers and Central Bank Governors meetings held in Shanghai and Chengdu, in February and July this year. This included advancing on-going cooperation on base erosion and profits shifting (BEPS), exchange of tax information, tax capacity-building in developing countries and tax transparency improvement.

With regard to the details about G20 meetings in Shanghai and Chengdu, you may click KPMG *China Tax Weekly Update* [Issue 8](#) and [Issue 29](#) for more.

Prior to this, B20 Business Summit (B20) was also held in Hangzhou on 3 September, and [B20 2016 Policy Recommendations to the G20](#) was released during the summit. The B20 2016 recommendations, consistent with the G20's focus, concentrate primarily on structural measures that will:

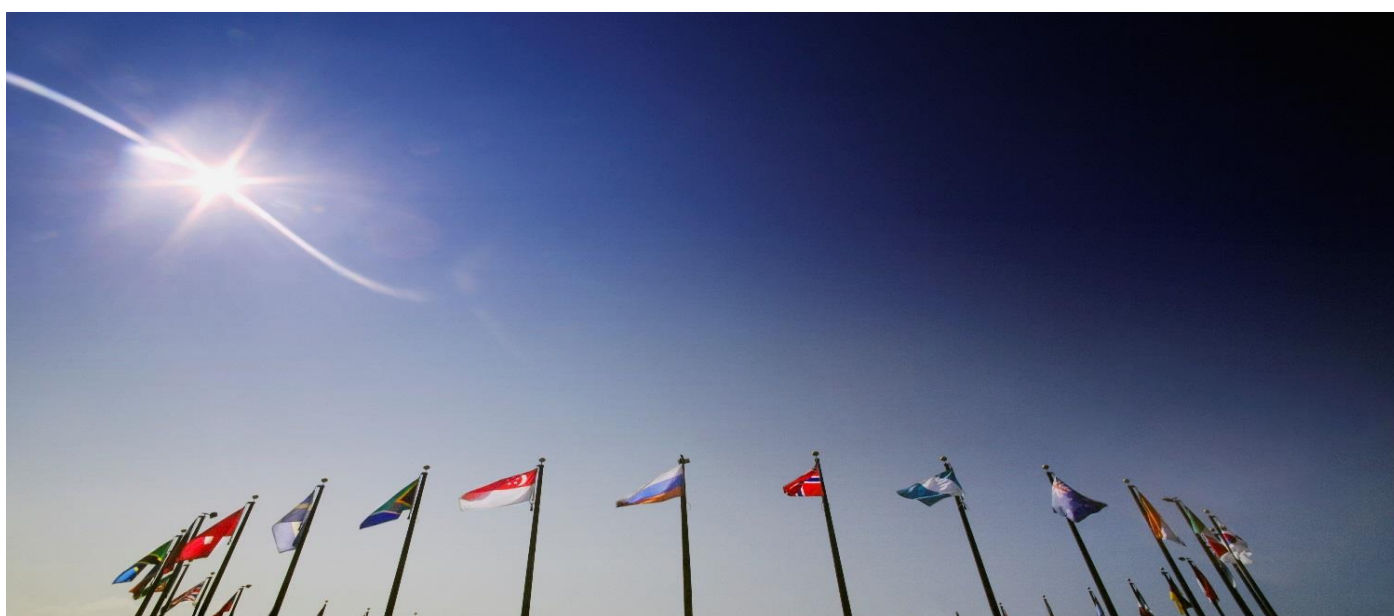
### Break a new path for global economic growth

- Implement programs such as the SMART innovation initiative to encourage entrepreneurship and innovation
- Accelerate the pipeline of high-quality bankable projects and promote the creation of financial instruments to facilitate infrastructure investment
- Enhance the catalytic role of multilateral development banks (MDBs) and institutions in enabling private-sector infrastructure investment
- Facilitate the development of green financing and investment markets
- Stimulate financial inclusion by embracing digital technology innovation

### Develop more effective and efficient global economic and financial governance

- Optimize global financial regulations to support growth
- Facilitate the access of small and medium enterprises (SMEs) to bank financing and alternative funding
- Adopt consistent and aligned tax policies to drive inclusive growth

<p><b>Develop more effective and efficient global economic and financial governance (cont'd)</b></p>	<ul style="list-style-type: none"> <li>• Strengthen intergovernmental cooperation against corruption, and support the building of capacity for stronger anti-corruption compliance</li> <li>• Promote a more transparent environment for business in order to bolster competition</li> </ul>
<p><b>Encourage robust international trade and investment</b></p>	<ul style="list-style-type: none"> <li>• Strengthen the multilateral trading system and eliminate new protectionist measures while rolling back existing measures to enable trade growth</li> <li>• Ratify the Trade Facilitation Agreement (TFA) by the end of 2016 and committing to rapid implementation</li> <li>• Endorse the concept of the Electronic World Trade Platform (eWTP) to incubate cross-border electronic trade (e-trade) rules and aid e-trade development</li> <li>• Develop coordinated capacity-building and certification programs to ease the inclusion of SMEs into global value chains (GVCs)</li> <li>• Enhance the global investment policy environment in order to boost investment</li> </ul>
<p><b>Promote inclusive and interconnected development</b></p>	<ul style="list-style-type: none"> <li>• Remove structural barriers to increase youth employment, and implementing initiatives to raise the participation rate of women in the labor force</li> <li>• Enact policies to assess and reduce skill mismatches and capability gaps in the workforce</li> <li>• Lower compliance costs and improve access to public procurement markets in order to support SME growth</li> <li>• Enable and promote innovative technologies and best-practice asset management that support whole-project life-cycle productivity of infrastructure projects</li> <li>• Strengthen or establish national, regional, and global initiatives to enhance infrastructure interconnectivity</li> </ul>



Reference: Decree of the President No. 51  
 Issuance date: 3 September 2016  
 Effective date: 1 October 2016

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

Potential impacts on businesses:

- Operational costs reduced

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

## China revises inbound investment laws

China's supreme legislature, the National People's Congress (NPC), on 3 September 2016 revised four laws regulating inbound investment, with an easing of rules on foreign and Taiwanese investors starting businesses across China. Also on 3 September, the Ministry of Commerce (MOFCOM) released a new set of supporting measures for foreign investors and those from Taiwan, Hong Kong and Macao to seek public comments.

### □ [NPC Standing Committee's decision on revising four inbound investment laws](#)

- On 3 September, the 22<sup>nd</sup> meeting of the NPC Standing Committee has adopted the decision on revising four inbound investment laws, including the Law on Wholly Foreign-owned Enterprises (WFOEs), the Law on Chinese-Foreign Equity Joint Ventures (EJVs), the Law on Chinese-Foreign Cooperative Joint Ventures (CJVs), and the Law on the Protection of Investment from Taiwanese Compatriots. The revisions have suspended administrative approvals for foreign and Taiwanese investors setting up ventures regulated by the four laws. If their business of such investors is not on a "Negative List", instead the recordal filing shall be applied, effective from 1 October 2016
- Provisions has been added to the four laws, that is, for industries and sectors not included on the "Negative List" (i.e. sectors for which foreign investment is restricted/prohibited), administrative pre-approvals are no longer needed for the following items. Rather, WFOEs, EJVs, CJVs and enterprises invested by Taiwanese compatriots undertaking these actions will instead simply make a recordal filing with the relevant government authorities. The "Negative List" shall be issued or approved by the State Council, which has not been released.

Laws	Items subject to recordal filing
<i>Law on WFOEs</i>	<ul style="list-style-type: none"> <li>Establishment of an WFOE</li> <li>De-merger, merger or other major changes of an WFOE</li> <li>Operating timeframe set for an WFOE</li> </ul>
<i>Law on China-Foreign EJVs</i>	<ul style="list-style-type: none"> <li>Agreements, contracts and constitutional documents signed by the parties of an EJV</li> <li>Operating timeframe set for an EJV</li> <li>Termination of the equity joint ventures contract</li> </ul>
<i>Law on China-Foreign CJVs</i>	<ul style="list-style-type: none"> <li>Establishment of a CJV</li> <li>Major amendments to the cooperative joint ventures contract</li> <li>Rights and obligations, in full or in part, transferred by any either partner of the CJV</li> <li>A CJV to be operated by a party other than the Chinese and foreign partners after the establishment</li> <li>Extension of the permissible operating timeframe of a CJV</li> </ul>
<i>Law on the Protection of Investment of Taiwan Compatriots</i>	<ul style="list-style-type: none"> <li>Establishment of enterprises invested by Taiwanese compatriots</li> </ul>

- ❑ [MOFCOM seeks public comments on Draft Interim Measures for Filing Administration of Establishment & Change of Foreign-invested Enterprises \(FIEs\)](#)
- Given the recordal filing shall be applied to certain actions undertaken by foreign and Taiwan investors, the MOFCOM released a draft supporting measures on foreign investors and those from Taiwan, Hong Kong and Macao reporting to the government, in a bid to avoid the regulatory vacuum after the revisions entering into force. The draft clarifies the enterprises covered, filing procedures, supervision and inspection as well as the legal liabilities etc. MOFCOM is soliciting the public opinions before 22 September
  - Establishment and change of FIEs that are not included in the “Negative List” shall be subject to the draft. Enterprises shall make the filing via system within 30 days upon the occurrence of the following changes:
    - ❖ Establishment of enterprises
    - ❖ Change in basic information of enterprises or investors
    - ❖ Change in equity or cooperation interests
    - ❖ Merger, division or termination
    - ❖ Mortgage or transfer of assets or rights to an external party
    - ❖ Recovery of investment by foreign partners to a Chinese partnership
    - ❖ Commissioned operation and management of a CJV
    - ❖ Change in actual investment
  - The draft also clarifies that the foreign-funded investment enterprises, venture capital enterprises and equity investment enterprises shall be deemed as foreign investors and be subject to this interim measures
- \* It is worth noted that the government plans with the Foreign Investment Law (expected in 2017) to get rid of EJV, CJV and WFOE. After the introduction of the Foreign Investment Law, foreign and Chinese investors will both use Chinese limited liability company (LLC) legal forms for business activity. As such, the changes mentioned here are an interim measure.



Reference: N/A  
 Issuance date: N/A  
 Effective date: N/A

Relevant industries: All  
 Relevant companies: All  
 Relevant taxes: CIT / IIT

Potential impacts on businesses:

- Effective tax burden reduced

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

## SAT releases the new China-Romania DTA

As mentioned in KPMG [China Tax Weekly Update \(Issue 26, July 2016\)](#), China and Romania have entered into the *Agreement between the Government of the People’s Republic of China and the Government of Romania for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income* (“New DTA”) in July 2016. New DTA made certain revisions to the existing China-Romania DTA (“Old DTA”) which was signed in 1991. The New DTA, now, has been released by the SAT.

In comparison with the Old DTA, the New DTA made the main changes in the table below.

\* It is notable for the following most important changes in the New DTA which make the new China-Romania DTA the best Chinese DTA in relation to dividend, interest and royalties.

- ❖ The New DTA reduced withholding tax rate on dividend from 10% to 3%
- ❖ The New DTA reduced withholding tax rate on interest from 10% to 3%, and provides with 0% on interest in certain cases
- ❖ The New DTA reduces the withholding tax rate from 7% to 3% on all royalties

	New DTA	Old DTA
<b>Article 4 Resident</b>	<ul style="list-style-type: none"> <li>• The term “resident of a Contracting State” means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, <u>place of incorporation, place of effective management</u> <u>place of registration</u> or any other criterion of a similar nature, and also includes that State and any political subdivision, local authority or administrative - territorial unit thereof. This term, however, does not include any person who is liable to tax in that State in respect only of income from sources in that State.</li> </ul>	<ul style="list-style-type: none"> <li>• The term “resident of a Contracting State” means any person who, under the laws of that State, is liable to tax therein by reason of his domicile, residence, <del>place of</del> <u>head office</u> or any other criterion of a similar nature.</li> </ul>
<b>Article 5 Permanent Establishment (“PE”)</b>	<ul style="list-style-type: none"> <li>• The furnishing of services, including consultancy services, by an enterprise through employees or other personnel engaged for such purpose, but only if activities of that nature continue ( for the same or a connected project) within a Contracting State for a period or periods aggregating <u>183 days</u> in any twelve month period <u>commencing or ending in the fiscal year concerned</u>.</li> </ul>	<ul style="list-style-type: none"> <li>• The furnishing of services, including consultancy services, by an enter prise of a Contracting State through employees or other personnel in the other Contracting State, provided that such activities continue (for the same project or a connected project) for a period or periods aggregating more than <del>six months</del> within any twelve-month period.</li> </ul>

	New DTA	Old DTA
<b>Article 5</b> <b>Permanent</b> <b>Establishment (“PE”)</b> <b>(cont’d)</b>	<ul style="list-style-type: none"> <li>• “PE” shall be deemed not to include: <ul style="list-style-type: none"> <li>❑ The maintenance of a fixed place of business solely for any combination of activities mentioned in sub-paragraphs above, provided that the overall activity of the fixed place of business resulting from this combination is of a preparatory or auxiliary character. <b>(New)</b></li> </ul> </li> <li>• An enterprise shall not be deemed to have a permanent establishment in a Contracting State merely because it carries on business in that State through a broker, general commission agent or any other agent of an independent status, provided that such persons are acting in the ordinary course of their business. <u>Where, however, a person acts exclusively or almost exclusively on behalf of one or more enterprises to which it is closely related, that person shall not be considered to be an agent of an independent status within the meaning of this paragraph with respect to any such enterprise.</u></li> <li>• For the purposes of this Article, a person is closely related to an enterprise if, based on all the relevant facts and circumstances, one has control of the other or both are under the control of the same persons or enterprises. In any case, a person shall be considered to be closely related to an enterprise if one possesses directly or indirectly more than 50 per cent of the beneficial interest in the other (or, in the case of a company, more than 50 per cent of the aggregate voting rights and value of the company’s shares or of the beneficial equity interest in the company) or if another person possesses directly or indirectly more than 50 per cent of the beneficial interest (or, in the case of a company, more than 50 per cent of the aggregate voting rights and value of the company’s shares or of the beneficial equity interest in the company) in the person and the enterprise. <b>(New)</b></li> </ul>	<ul style="list-style-type: none"> <li>• “PE” shall be deemed not to include: <ul style="list-style-type: none"> <li>❑ The maintenance of a fixed place of business solely for the purpose of carrying on, for the enterprise, <del>advertisement, supply of information, scientific search</del> or any activity of a preparatory or auxiliary character.</li> </ul> </li> </ul>

	New DTA	Old DTA
<p><b>Article 10</b> <i>(Dividends)</i></p>	<ul style="list-style-type: none"> <li>If the beneficial owner of the dividends is a resident of the other Contracting State, the tax so charged shall not exceed <u>3 percent</u> of the gross amount of the dividends.</li> <li>Dividends arising in a Contracting State and paid to the other Contracting State or a political subdivision, local authority or administrative -territorial unit thereof, or any entity wholly or mainly owned by the other Contracting State, shall be exempt from tax in the first-mentioned State. the term “mainly owned” means the ownership exceeds 50 percent. <b>(New)</b></li> <li>The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the shares or other rights in respect of which the dividend is paid to take advantage of this Article by means of that creation or assignment. <b>(New)</b></li> </ul>	<ul style="list-style-type: none"> <li>If the recipient is the beneficial owner of the dividends the tax so charged shall not exceed <del>10 percent</del> of the gross amount of the dividends.</li> </ul>
<p><b>Article 11</b> <i>(Interest)</i></p>	<ul style="list-style-type: none"> <li>If the beneficial owner of the interest is a resident of the other Contracting State, the tax so charged shall not exceed <u>3 percent</u> of the gross amount of the interest.</li> <li>Interest arising in a Contracting State and beneficially owned by a resident of the other Contracting State shall be taxable only in that other State to the extent that such interest is paid: <b>(New)</b> <ul style="list-style-type: none"> <li><input type="checkbox"/> In respect of indebtedness arising as a consequence of the sale on credit of any equipment, merchandise or services; or</li> <li><input type="checkbox"/> On any loan of whatever kind granted by a financial institution of that other State; or</li> <li><input type="checkbox"/> To that other State or a political subdivision, local authority or administrative – territorial unit thereof, or any entity wholly or mainly owned by that other State.</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Such interest may also be taxed in the Contracting State in which it arises and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the interest the tax so charged shall not exceed <del>40</del> <u>percent</u> of the gross amount of the interest.</li> </ul>

	New DTA	Old DTA
<b>Article 11</b> <i>(Interest)</i> <i>(Cont'd)</i>	<ul style="list-style-type: none"> <li>The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the debt-claim in respect of which the interest is paid to take advantage of this Article by means of that creation or assignment. <b>(New)</b></li> </ul>	
<b>Article 12</b> <i>(Royalties)</i>	<ul style="list-style-type: none"> <li>Royalties arising in a Contracting State may also be taxed in that State according to the laws of that State, but if the beneficial owner of the royalties is a resident of the other Contracting State, the tax so charged shall not exceed <u>3 per cent</u> of the gross amount of the royalties.</li> <li>The provisions of this Article shall not apply if it was the main purpose or one of the main purposes of any person concerned with the creation or assignment of the rights in respect of which the royalties are paid to take advantage of this Article by means of that creation or assignment. <b>(New)</b></li> </ul>	<ul style="list-style-type: none"> <li>Such royalties may also be taxed in the Contracting State in which they arise and according to the laws of that Contracting State, but if the recipient is the beneficial owner of the royalties the tax so charged shall not exceed <del>7 percent</del> of the gross amount of the royalties.</li> </ul>
<b>Article 13</b> <i>(Capital gains)</i>	<ul style="list-style-type: none"> <li>Gains derived by a resident of a Contracting State from the alienation of shares, other than shares in which <u>there is substantial and regular trading on a stock exchange, or comparable interests, deriving more than 50 percent</u> of their value directly or indirectly from immovable property situated in the other Contracting State may be taxed in that other State.</li> </ul>	<ul style="list-style-type: none"> <li>Gains from the alienation of shares of the capital stock of a company the property of which consists directly or indirectly <del>principally</del> of immovable property situated in a Contracting State may be taxed in that Contracting State.</li> <li><del>Gains from the alienation of shares other than those mentioned in paragraph 4 representing a participation of 25 per cent in a company which is a resident of a Contracting State may be taxed in that Contracting State.</del></li> </ul>



	New DTA	Old DTA
<b>Article 15</b> <i>(Income from employment)</i>	<ul style="list-style-type: none"> <li>Remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if meet 3 conditions, one of the conditions is : <ul style="list-style-type: none"> <li><input type="checkbox"/> The recipient is present in the other State for a period or periods not exceeding in the aggregate 183 days <u>in any twelve month period commencing or ending in the fiscal year</u> concerned, and</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>Remuneration derived by a resident of a Contracting State in respect of an employment exercised in the other Contracting State shall be taxable only in the first-mentioned State if meet 3 conditions, one of the conditions is : <ul style="list-style-type: none"> <li><input type="checkbox"/> the recipient is present in that other Contracting State for a period or periods not exceeding in the aggregate 183 days <del>in the calendar year</del> concerned; and</li> </ul> </li> </ul>
<b>Article 23</b> <i>(Elimination of double taxation)</i>	<ul style="list-style-type: none"> <li>In China, one of the ways for double taxation being eliminated is as follow: Where the income derived from Romania is a dividend paid by a company which is a resident of Romania to a company which is a resident of China and which <u>owns at least 20 percent</u> of the shares of the company paying the dividend, the credit shall take into account the tax paid in Romania by the company paying the dividend in respect of its income.</li> </ul>	<ul style="list-style-type: none"> <li>In China, one of the ways for double taxation being eliminated is as follow: Where the income derived from Romania is a dividend paid by a company which is a resident of Romania to a company which is a resident of China and which owns <del>not less than 10 percent</del> of the shares of the company paying the dividend, the credit shall take into account of Romanian tax payable by the company paying the dividend in respect of its income.</li> </ul>

\*\* The new China-Romania DTA is the best China DTA (even better than the China-Russian DTA). Both are superior to the former 'best' treaties with HK and Taiwan. Romania is at the western end of China's 'Belt and Road', Russia is on the 'Belt and Road'. It does progressively appear that China is pursuing a strategy of improvement in the terms of its tax treaties along the 'Belt and Road'.

The China-Romania and China-Russia DTAs (the two newest) have moved to a completely new level of preferential treatment on WHT in treaties. In the past, for most treaties, portfolio investment dividends, interest, royalties did not see much if any reduction below the domestic law 10% rate. Now there are radical reductions. If this policy of very low WHT rates continues it would (i) make China's treaty network a far more powerful instrument for raising the attractiveness of investment in China and (ii) make it ever more important for investors to ensure they meet treaty relief qualification requirements.

Reference: Yin Fa [2016] No. 227

Issuance date: 5 September 2016

Effective date: 5 September 2016

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

Potential impacts on businesses:

- Restrictions on investments reduced
- Operational costs reduced

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

## China relaxes foreign financial investment quota rules

On 5 September 2016, the People's Bank of China (PBOC) and the State Administration of Foreign Exchange (SAFE) jointly issued Yin Fa [2016] No. 227 (Circular 227) to revise the foreign exchange administration rules in relation to RMB Qualified Foreign Institutional Investor (RQFII) license holders engaged in securities investment in China. This follows SAFE Announcement [2016] No. 1 (Announcement No. 1) on relaxing certain administration on QFII securities investment which was noted in KPMG [China Tax Weekly Update \(Issue 5, February 2016\)](#).

Similar to SAFE Announcement No. 1, Circular 227 relaxes or simplifies the administration as follows:

- Relax the upper limit of the investment amount for a single RQFII institution. A unified limit of the investment amount for each institution will no longer be set. A specific investment limit (basic limit) will be provided based on a certain portion of the size of the assets owned or managed by the organization. This means that larger global financial institutions will be able to invest relatively more in China through the RQFII mechanism

The basic limit is calculated as follows:

- ❖ For an RQFII which owns or manages assets mainly outside China, the basic limit = USD100 million + Average assets of the last three years \* 0.2% - Granted QFII limit
- ❖ For an RQFII which owns or manages assets mainly within China, the basic limit = RMB 5 billion + Assets of the last year \* 80% - Granted QFII limit

Only record filing is required for limit application within the basic limit of the RQFII. Where the limit application exceeds the basic limit, approval of the SAFE is required.

- Simplify the approval procedures for adjusting investment limits
- Further facilitate the exchange of funds. Deadlines for remitting in RQFII investment capital are abolished. RQFII open fund is allowed to do daily subscription and redemption
- Reduce the principal lock-up period from one year to three months. An RQFII is prohibited from remitting the investment principal out of China during the lock-up period. Revise the commencing date of the lock-up period, i.e., principal lock-up period shall commence on the date on which the RQFII's cumulative inward remittance attains the equivalent value of RMB 100 million

The following provisions, set out in Circular 227 for RQFII, differ from the relevant provisions for QFII in Announcement No. 1:

- One RQFII can entrust no more than three domestic custodians (only one domestic custodian can be entrusted by QFII)
- No cash withdrawal shall be made from special deposit accounts of RQFII (no such provision for QFII)
- No limitation on monthly cumulative outward remittance for RQFII, but Announcement No. 1 requires that the QFII's monthly cumulative outward remittance (principal and gains) shall not exceed 20% of its total assets in China as at end of the preceding year, and the open-end fund QFII monthly cumulative outward remittance shall not exceed 20% of the total assets of the fund as at end of the preceding year

Reference: N/A  
 Issuance date: N/A  
 Effective date: N/A

Relevant industries: All  
 Relevant companies: All  
 Relevant taxes: Customs duties

Potential impacts on businesses:

- Operational costs reduced

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

## China's supreme legislature passes IT tariff bill

Based on the news published on the website of Ministry of Finance ("MOF"), on 3 September 2016, the 22nd meeting of the 12th NPC Standing Committee passed a bill to ratify an amendment to a tariff concession schedule of the World Trade Organization (WTO) access protocol. Under the amendment, China will gradually cut and eventually eliminate customs duties on 201 IT products imported from WTO members.

The products include information communications products, semiconductors and semiconductor manufacturing equipment, audio-visual products, medical equipment, and instrument and apparatus. Tariff elimination on most of the products will be concluded within five years, and for the rest, tariff will be reduced to zero in seven years.

\* On 16 December 2015, 24 WTO members including China, Japan, South Korea, the U.S., Hong Kong issued [Ministerial Declaration on the Expansion of Trade in Information Technology Products](#), which clarifies that the parties, subject to the completion of domestic procedural requirements, each party shall gradually eliminate all customs duties on 201 IT products covered in the declaration.

Reference: GAC  
 Announcement [2016] No. 49  
 Issuance date: 7 September  
 Effective date: 1 October  
 2016

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

Potential impacts on businesses:

- More facilitation for import and export trade

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

## AEO mutual recognition piloted between Mainland and Taiwan

On 7 September 2016, the General Administration of Customs (GAC) issued Announcement [2016] No. 49 ("Announcement 49"). This clarifies that the pilot program of mutual recognition of Authorized Economic Operators (AEO) between Mainland and Taiwan will be implemented from 1 October 2016.

- Enterprises certified by Taiwan customs shall be recognised as AEO enterprises by customs of mainland China, and vice versa
- Customs of mainland China and Taiwan Customs shall grant the following customs clearance facilitation measures for mutually recognised AEO enterprises: (i). reduce documentation examination and approval for imports; (ii). lower inspection rate for imports; (iii). priority processing of customs clearance for imports; (iv). set a liaison between customs and AEO enterprises; (v). prioritized disposal for special issues
- Customs in Nanjing, Fuzhou and Xiamen of Mainland China and customs in Gaoxiong, Jilong of Taiwan will be included in the pilot program
- The pilot AEO enterprises in mainland China are the enterprises which directly export goods by shipping to Gaoxiong and Jilong from all ports of China (not limit to the goods sailed from Nanjing, Fuzhou and Xiamen ports); while the pilot AEO enterprises in Taiwan are which directly export goods by shipping to Nanjing, Fuzhou and Xiamen from all ports of Taiwan (not limit to the goods sailed from Gaoxiong and Jilong ports)

In addition, Announcement 49 also clarifies the administration on declaration among other matters.

Reference: SAT  
Announcement [2016] No. 57  
and No. 59

Issuance date: 29 August  
2016 / 31 August 2016  
Effective date: 1 September  
2016 / 15 November 2016

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

Potential impacts on  
businesses:

- Compliance risks due to regulatory uncertainties reduced

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

## Further VAT implementation rules from SAT

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, the State Administration of Taxation (SAT) issued two circulars to clarify issues in relation to VAT invoice selection and confirmation platform and entrusted issuance of VAT invoices.

- ❑ [SAT optimizes the functions of the digital platform for VAT invoice selection and confirmation \(SAT Announcement \[2016\] No. 57\)](#)
  - From 1 September 2016, taxpayers may enquire, select and confirm the information on the VAT invoices which are applicable for claiming tax deduction and export refund by logging into the provincial VAT invoice selection and confirmation digital platform on a daily basis
  - The deadline as stipulated in SAT Announcement [2016] No. 32 that taxpayers must log into the system to confirm the VAT invoices used for input tax credit or export tax refund before 2 days of the filing period deadline has been abolished
- ❑ [SAT clarifies the procedures for entrusted issuance of VAT invoices \(SAT Announcement \[2016\] No. 59, "Announcement 59"\)](#)
  - Announcement 59 clarifies the procedures for tax authorities issuance of VAT invoices on behalf of the taxpayers. For sale of immovable properties by the taxpayers or lease of immovable properties by individuals, documentation requirements for local tax authorities to issue the VAT invoices on behalf of them shall still be subject to the existing provisions

The State Council, the Ministry of Finance (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](#), [Issue 31](#), [Issue 32](#), [Issue 33](#) and [Issue 34](#) 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 \(Issue 20, July 2016\)](#)

Reference: Cai Shui [2016] No. 94  
 Issuance date: 24 August 2016  
 Effective date: 1 January 2016 to 31 December 2018

Relevant industries: Heat-supply industry  
 Relevant companies: Heat-supply enterprises in certain regions  
 Relevant taxes: VAT / RET / UTLUT

Potential impacts on businesses:

- Effective tax burden reduced

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

## Continuance of existing tax incentives for heat-supply enterprises in certain regions

On 24 August 2016, the MOF and the SAT jointly issued Cai Shui [2016] No. 94, which clarifies that the certain tax incentives shall continue to be implemented for heat-supply enterprises that are located in northeast, north and northwest of China\*.

- From 1 January 2016 to the end of the heating period of 2018, heating fees derived by heat-supply enterprises for the heat-supply to individual residents ("residents") shall be exempted from VAT
- From 1 January 2016 to 31 December 2018, where heat-supply enterprises charge heating costs from resident, their real estate tax (RET), urban and township land use tax (UTLUT) on plants and lands used for the heat-supply to residents shall be exempted; while other plants and lands shall be subject to RET and UTLUT

\* Provinces, municipalities and autonomous regions in northeast, north and northwest of China include Beijing, Tianjin, Hebei, Shanxi, Inner Mongolia, Liaoning, Dalian, Jilin, Heilongjiang, Shandong, Qingdao, Henan, Shaanxi, Gansu, Qinghai, Ningxia and Xinjiang.

Reference: Cai Ban Kuai [2016] No. 36  
 Issuance date: 29 August 2016  
 Effective date: N/A

Relevant industries: All  
 Relevant companies: Enterprises with financial instruments  
 Relevant taxes: N/A

Potential impacts on businesses:

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

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## MOF solicits opinions on the revised Accounting Standards for Business Enterprises

As mentioned in KPMG [China Tax Weekly Update \(Issue 31, August 2016\)](#), the MOF, on 1 August 2016, issued three revised Accounting Standards for Business Enterprises (ASBE) in respect of financial instruments for soliciting opinions. As on this basis, the MOF further revised the ASBE No. 37 – Presentation of Financial Instruments and invited the relevant authorities to provide comments on 29 August. Major amendments are as follows:

- Financial assets will be reclassified in three categories, including financial assets measured at amortised cost, financial assets measured at fair value for which value movements are included in other comprehensive income, and financial assets measured by the fair value for which value movements are included in profit or loss. Prior to the revision, the existing financial assets include four categories, i.e., financial assets measured at fair value for which value movements are included in profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale financial assets
- The method for accrual of impairment of financial asset is change from "incurred loss model" to "expected loss model"
- The requirements for disclosure of hedging accounting are overhauled

Comments shall be lodged with the accounting department of the MOF before 18 October 2016.



## Beijing updates its interpretation on Provisional Regulations on Real Estate Tax

As mentioned in KPMG [China Tax Weekly Update \(Issue 32, August 2016\)](#), the people's government of Beijing issued GOV Order No. 269 and announce that the implementation interpretation on the Provisional Regulations on Real Estate Tax (RET) issued by Beijing government has been abolished from 15 May 2016. Subsequently, the Beijing government further issued Jing Zheng Fa [2016] No. 24 ("Circular 24") on 28 June, providing an updated interpretation on the Provisional Regulations on RET. Circular 24 clarifies the deduction ratio of original value of the property, deduction or exemption of RET, filing and payment deadlines for Beijing, effective from 1 July 2016.

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

