

# China Tax Weekly Update

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Reference: Cai Shui [2016] No. 127

Issuance date: 5 November 2016

Effective date: 5 December 2016

Relevant industries: Financial industry

Relevant companies:

Enterprises which involved in Shenzhen-HK Stock Connect

Relevant taxes: CIT / IIT / VAT / Stamp duty

Potential impacts on businesses:

- Compliance costs due to regulatory uncertainties reduced

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

## Tax treatment for Shenzhen-Hong Kong Stock Connect transactions clarified

As mentioned in KPMG [China Tax Weekly Update \(Issue 32, August 2016\)](#), Premier Li Keqiang informed a State Council executive meeting on 16 August 2016, that preparations for the launch of Shenzhen-Hong Kong Stock Connect were complete. The State Council subsequently approved the Implementation Plan for 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.

Following the China Securities Regulatory Commission's (CSRC) and the Hong Kong Securities and Futures Commission's (SFC) announcement on 25 November 2016, the trading of stocks under the new Shenzhen-Hong Kong Stock Connect programme started on 5 December 2016.

At the same time, the Ministry of Finance (MOF), the State Administration of Taxation (SAT) and China Securities Regulatory Commission (CSRC) jointly issued Cai Shui [2016] No. 127 ("Circular 127"). This sets out the tax treatment for transactions undertaken through Shenzhen-Hong Kong Stock Connect, effective from 5 December 2016. The China tax highlights of the Circular include the following:

Investors	Income type	PRC CIT / IIT
Mainland individual investors	Share trading gains on Hong Kong stocks	Temporarily subject to IIT exemption from 5 December 2016 to 4 December 2019
	Dividends	Subject to IIT at 20%
PRC corporate investors	Share trading gains on Hong Kong stocks	Subject to CIT
	Dividends	Subject to CIT (other than interest in qualifying H shares)
Hong Kong market investors (both corporations and individuals)	Capital gains from transfer of A-shares	Temporarily exempt from IIT / CIT
	Dividends	Subject to 10% withholding tax. (If the recipient of the dividend is entitled to a lower tax treaty rate, application can be made to the in-charge tax bureau of the payer for a tax refund)

- Value-added tax (VAT)

Investors	Income type	PRC VAT
<b>Hong Kong market investors (both corporations and individuals)</b>		Subject to VAT exemption under the VAT reform
<b>Mainland individual investors</b>	Capital gains from transfer of listed stock	
<b>PRC corporate investors</b>		Subject to the existing rules under the VAT reform

- Stamp duty (SD)

Investors	Income type	PRC SD
<b>Hong Kong market investors</b>	Trading, inheritance and gift of A-shares listed on the Shenzhen Stock Exchange through Shenzhen-Hong Kong Stock Connect	Subject to SD pursuant to the prevailing provisions in Mainland China
	Borrowing and return of shares under a covered short selling arrangement through Northbound Shanghai Trading Link under Shanghai-Hong Kong Stock Connect and Northbound Shenzhen Trading Link under Shenzhen-Hong Kong Stock Connect **	Temporarily subject to SD exemption
<b>Mainland individual investors</b>	Trading, inheritance and gift of A-shares listed on the Stock Exchange of Hong Kong through Shenzhen-Hong Kong Stock Connect	Investors also need to inform themselves on the tax treatment on the HK side

\* On 31 October 2014, the MOF, the SAT and CSRC jointly issued Cai Shui [2014] No. 81 to clarify the PRC tax treatment of transactions conducted through Shanghai-Hong Kong Stock Connect. The tax arrangements for Shenzhen-Hong Kong Stock Connect are very similar to those clarified for Shanghai-Hong Kong Stock Connect in 2014. The principal difference is that the Shenzhen-Hong Kong Stock Connect rules take account of the VAT reform, which has replaced business tax (BT) and was fully rolled out since 1 May 2016. Shanghai-Hong Kong Stock Connect transactions had been subject to business tax and so the rules issued at that time addressed BT treatment.

\*\* This new arrangement was not provided for in the tax rules issued in 2014 for Shanghai-Hong Kong Stock Connect. The latter comprises the Northbound Hong Kong to Shanghai Trading Link and the Southbound Shanghai to Hong Kong Trading Link. In Circular 127, the MOF and the SAT have jointly granted a temporary SD exemption for stock borrowing arrangements. It covers not just Shenzhen-Hong Kong Stock Connect (like the rest of the Circular 127 provisions) but also extends to cover Shanghai-Hong Kong transactions.

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

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

Potential impacts on businesses:

- Operational costs reduced
- Effective tax burden reduced

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## China to further cut taxes and fees in 2017

Based on news published on the central government website, Premier Li Keqiang, at a State Council Committee meeting held on 29 November 2016, hosted a discussion on VAT reform. A decision was made concerning the allocation of portions of VAT revenues to local governments to ensure their financial sustainability. The relevance of this is that VAT revenues arise to the central government whereas (pre-VAT reform) business tax (BT) revenues arose to the local governments. Transitional measures are in place to ensure that the VAT reform does not undermine local government finances, pending a more thorough reform, in coming years, to fix a new general allocation of tax revenues between local and central government levels.

Effects of the VAT reform and future plans were discussed at the meeting:

- The final stage of the VAT reform in May 2016 encompassed the finance, construction, real estate and life-style services sectors. By the end of October 2016, the reform had yielded a reduction in tax burden of RMB 96.5 billion (\$14 billion), meaning that all 26 sub-sectors met the target of reducing their tax burden. At the same time the tax net was widened, with 530,000 new taxpayers added.
- Further measures will be taken, particularly for the finance and construction sectors, to clarify implementation rules and further reduce the tax burden.
- From 2016, allocation of VAT revenues between local and central government levels will be carried out on a fixed basis, and there will be no upward or downward adjustments to the VAT allocation for regions with increasing or declining VAT revenues.

Reference: Cai Shui [2016] No.129 / SAT Announcement [2016] No.47 / Cai Guan Shui [2016] No.63  
Issuance date: 30 November 2016  
Effective date: 1 December 2016

Relevant industries: Luxury car retailing

Relevant companies: Retail Companies engaged in sale of luxury car

Relevant taxes: Consumption Tax

Potential impacts on businesses:

- Operational costs increased

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

## China adds 10% consumption tax for luxury cars

On 30 November 2016, four circulars, issued by the MOF, the SAT and the General Administration of Customs (GAC), clarified that additional consumption tax at 10% will be imposed on retail sale of luxury cars, effective from 1 December 2016.

[SAT and MOF introduce additional consumption tax on luxury cars](#) (Cai Shui [2016] No.129)

<b>Scope of additional consumption tax</b>	<ul style="list-style-type: none"> <li>• Passenger cars, medium and light commercial vehicles with a retail price, excluding VAT, higher than RMB1.3 million, shall be regarded as luxury cars, and be subject to additional consumption tax.</li> </ul>
<b>Taxpayers</b>	<ul style="list-style-type: none"> <li>• Entities and individuals who sell luxury cars to consumers.</li> </ul>
<b>Applicable tax rates</b>	<ul style="list-style-type: none"> <li>• Consumption tax is currently levied at production or import stage*. This tax will continue to apply, and the additional 10% consumption tax will be imposed at retail stage.</li> <li>• Where a luxury car directly sold to consumer by an auto manufacturing enterprise in China, its consumption tax is calculated by the aggregate tax rate of tax rate at production stage and tax rate at retail stage.</li> </ul>

\* According to the [Provisional Regulations of the People's Republic of China on Consumption Tax](#) issued in 1993, passenger cars shall be subject to consumption tax ranging from 1% to 40% while medium and light commercial vehicles' tax rate is 5%, and both shall be levied at the production (import) stage.

[SAT clarifies collection of consumption tax on luxury cars](#) (SAT Announcement [2016] No. 74, "Announcement 74")

Announcement 74 clarifies the following issues for collection of consumption tax on luxury cars:

- For taxpayers engaged in retail of luxury cars, they shall complete consumption tax registration with their in-charge tax authorities within the prescribed timeframe.
- From 1 December 2016, taxpayers engaged in retail of luxury cars shall fill in the relevant consumption tax return when they file and pay consumption tax at retail stage.

[MOF and SAT's notice on adjusting consumption tax on imported cars](#) (Cai Guan Shui [2016] No. 63)

- Beginning from 1 December 2016, for the luxury cars valued at RMB1.3 million and above which are imported for personal use by the personnel of foreign embassies and consulates in China, foreign institutions in China and their personnel, and non-resident permanent personnel, as well as according to inter-government agreements, the consumption tax is calculated by the aggregate tax rate of tax rate at production (import) stage and tax rate at retail stage (10%). The consumption tax is to be levied by the Customs.

(The SAT and the Ministry of Foreign Affairs issued a new VAT refund policy for foreign embassies (consulates) in China consuming goods and services in August 2016, please access KPMG [China Tax Weekly Update \(Issue 36, September 2016\)](#) for more.)

[GAC's announcement on implementation issues relating to adjusting consumption tax on imported cars](#) (GAC Announcement [2016] No. 74)

- According to the adjusted consumption tax policy on super luxury cars, this Announcement further clarifies the Customs filing issues for the import declaration form.

Reference: SAT  
Announcement [2016] No. 73  
Issuance date: 24 November 2016  
Effective date: 24 November 2016

Relevant industries: All  
Relevant companies: Enterprises transfer immovable property  
Relevant taxes: VAT

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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

## Further VAT rules for transfer of immovable property

On 24 November 2016, the SAT issued Announcement [2016] No. 73, further clarifying VAT rules for transfers of immovable property. This announcement is effective from the date of issuance.

- A simplifying rule is provided for taxpayers transferring immovable property that are subject to VAT on a "net basis" method\*. Normally, in order to enjoy the "net basis" method, the taxpayer must provide the Fapiao (i.e. special tax invoice) they received when they originally purchased the immovable property. In a simplifying procedure, if the taxpayer cannot locate this Fapiao, they can provide, to the tax authorities, evidence of tax payment and documentation supporting the basis used for calculating the deed tax paid at original acquisition.
- Taxpayers who calculate the VAT by deducting the tax basis used for deed tax, shall use the two formulas prescribed in the Announcement to calculate the VAT (i.e., inclusive of business tax in tax basis for deed taxes paid before 30 April 2016 and exclusive of VAT after 1 May 2016).

\* On 31 March 2016, the SAT issued [Interim Measures regarding VAT collection on transferring real estate](#). This provides that, taxpayers, in the following situations, may use the "net basis" method to calculate the VAT:

- ❖ General VAT taxpayer enterprises transferring immovable property obtained by them (excluding self-built properties)
- ❖ Small-scale VAT taxpayer enterprises transferring immovable property obtained by them (excluding self-built properties)
- ❖ Individuals transferring immovable property obtained by them (excluding self-built properties). Residences purchased by them shall not be subject to the "net basis" method.

For more information about the interim measures, you may access KPMG [China Tax Weekly Update \(Issue 11, March 2016\)](#) for details.

Reference: SAT  
Announcement [2016] No. 72  
Issuance date: 20 November 2016  
Effective date: N/A

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

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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## SAT clarifies interest WHT relief in China-Denmark DTA

On 2 November 2016, the SAT issued Announcement [2016] No. 72. This clarifies that the DTA interest WHT exemption will be available to the Denmark investment fund for developing countries.

Specifically, it is clarified that the Denmark "Investment Fund for Developing Countries" and "Industrialisation Fund for Developing Countries" are considered to fall under "any agency of that Government" specified in Article 11 (Interest) of the [Agreement between the Government of the Kingdom of Denmark and the Government of the People's Republic of China for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with respect to Taxes on Income](#).

Reference: GAC  
 Announcement [2016] No. 73  
 Issuance date: 30 November  
 2016  
 Effective date: 1 December  
 2016

Relevant industries: All  
 Relevant companies: All  
 Relevant taxes: Customs  
 Duty

Potential impacts on  
 businesses:  
 • Operational costs  
 reduced

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

## China customs administrative modernization

As mentioned in KPMG [China Tax Weekly Update \(Issue 42, November 2016\)](#), on 29 October 2016, the General Administration of Customs (GAC) issued GAC Announcement [2016] No. 62 ("Announcement 62"). This puts in place a pilot reform on duty collection and administration starting from 1 November 2016. The reform is aimed at transitioning China Customs from traditional goods pre-clearance review processes, under which reviews must be conducted before goods are released by Customs, to new post-import review processes which are much more efficient.

On 30 November 2016, the GAC further issued Announcement [2016] No. 73, expanding the scope of the pilot reform starting from 1 December 2016.

- The pilot programs are extended to goods imported through the shipping ports under the administration of the customs offices of the Yangtze River Economic Belt (including Shanghai, Nanjing, Hangzhou, Ningbo, Hefei, Nanchang, Wuhan, Changsha, Chongqing, Chengdu, Guiyang, and Kunming). Goods listed in chapters 84, 85, and 90 of the Customs Import and Export Tariff of the People's Republic of China, and declared in paperless form to the customs offices of the Yangtze River Economic Belt, are within the pilot scope.
- Goods that are subject to formula pricing (formula pricing means a formula, to be used for determination of settlement price, in a contract for sale of goods within China, where the buyer and seller has not agreed to a fixed price) and are specially approved for import, and the goods under preferential trade agreement whose Certificate of Origin or Declaration of Origin that has not been captured by electronic information exchange system for country of origin are not included in the pilot programs.

\* With regard to the details and impacts of Announcement 62, you may access the following KPMG publication for more:

- [China Tax Alert: China Customs Authority Conducts Pilot of Independent Customs Declaration and Tax Payment for Imported Goods \(Issue 30, November 2016\)](#)





## Additional information to be included in annual report

On 23 November 2016, the State Administration for Industry and Commerce, the Ministry of Human Resources and Social Security and the Bureau of Statistics jointly issue Gong Shang Qi Jian Zi [2016] No. 226. This makes deployments for addition of the social insurance and statistical information (such as type of insurance enrolled in, number of persons of the enterprise enrolled in insurance, main business activities, information of share controlling by the enterprise) to the enterprises' annual reports.

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

## GAC pilots new customs inquiry system

On 29 November 2016, the GAC issued Announcement [2016] No. 66 to launch a new inquiry system to facilitate the Pilot Reform of Tax Collection and Administration Procedure, effective from the date of issuance. This system aims to facilitate customs clearance, by guiding consignees and consignors of imports and exports, and their agents, on how to properly classify and declare imports and exports for customs compliance purposes.

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

## GAC reinforces administration for processing trade

On 28 November 2016, the GAC issued Announcement [2016] No. 67 (Announcement 67) to regulate the administration of consumable materials imported under processing trade. Announcement 67 clarifies the supervision mode for imported consumable materials, documentation requirements for declaring such materials. Announcement 67 shall take effect from 1 January 2017, simultaneously repealing GAC Announcement [2011] No. 2.

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

## GAC standardizes rules for inward processing in special customs zones

On 29 November 2016, the GAC issued Announcement [2016] No. 68 to standardize the administration for inward processing business in special customs supervision zone. Announcement 68 clarifies the applicable scope and supervision mode etc., effective from the date of issuance.

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

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