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Reference: N/A
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Effective date: N/A

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

Potential impacts on businesses:

- Get prepared for the possibility of the US tax reform

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US: President Trump calls for tax cut in address to Congress

President Trump delivered his first speech to a joint session of Congress on 28 February 2017, in which he outlined a wide range of priorities, including in relation to fiscal policy. However, he did not provide details regarding specific tax reform proposals, nor did he indicate when his administration might release its tax reform proposal. "Right now, American companies are taxed at one of the highest rates anywhere in the world," he said. "My economic team is developing an historic tax reform that will reduce the tax rate on our companies so they can compete and thrive anywhere and with anyone. At the same time, we will provide massive tax relief for the middle class."

Trump made a brief reference to his administration's concern with a perceived difference in how the US taxes imports, as compared with the approach in US trading partner countries. "Currently, when we ship products out of America, many other countries make us pay very high tariffs and taxes, but when foreign companies ship their products into America, we charge them nothing or almost nothing," he said.

Trump moved on to complain that Harley-Davidson's motorcycles are taxed at 100 per cent in one jurisdiction. "I am not going to let America and its great companies and workers, be taken advantage of any longer. They have take advantage of our country – no longer." he also said.

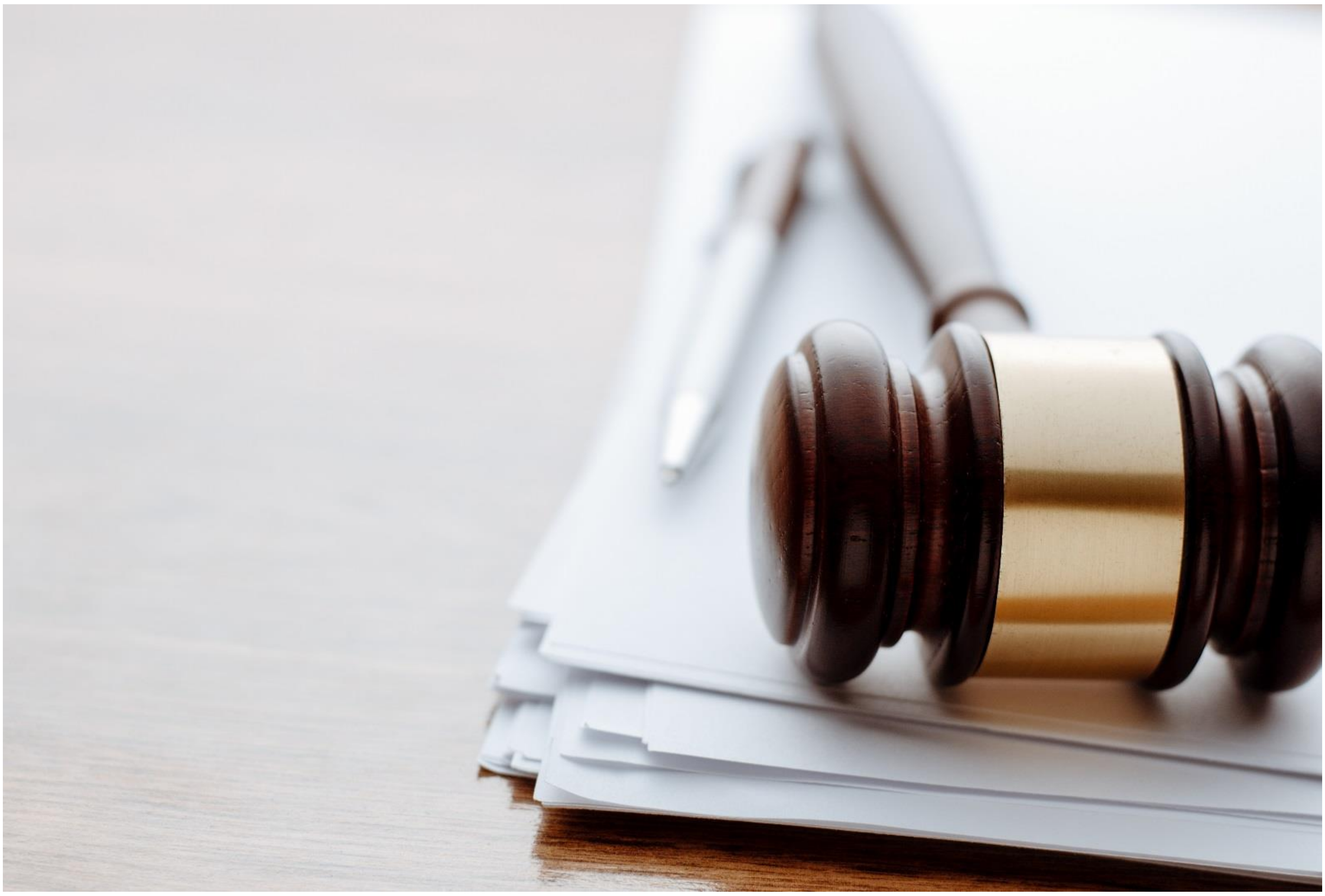
Many commentators have taken these statements to imply Trump's support for a border adjustment tax (BAT) for imported goods, though others have argued that the statement supports instead a change to US tariff policy.

For reference, House Republicans on June 24, 2016 released their "blueprint" for tax reform. The blueprint proposes to reduce tax rates for businesses and for individuals and to move the U.S. tax system closer to a consumption-based tax system through reforms of the income tax rules (without providing a value-added tax or national sales tax). This Blueprint achieves this by providing for border adjustments exempting exports and taxing imports, not through the addition of a new tax but within the context of the transformed business tax system. In addition, border adjustments mean that it does not matter where a company is incorporated; sales to U.S. customers are taxed and sales to foreign customers are exempt, regardless of whether the taxpayer is foreign or domestic. However, it should be noted that this blueprint document is not a legislative draft that can be acted on by the House.

The blueprint proposes significant changes to the taxation of individuals and businesses, as well as to the structure and administration of the Internal Revenue Service (IRS). You may read the following KPMG publications to understand more details:

- House Republican tax reform “blueprint” – initial observations (KPMG, June 2016)
- Understanding the tax reform process: FAQ (KPMG, 5 December 2016)

US adoption of a BAT would have significant effects on US trading partners, such as China, and we will continue to monitor.



Reference: Cai Guan Shui [2016] No. 71
Issuance date: 14 January 2017
Effective date: 1 January 2016

Relevant industries: All
Relevant companies: Scientific research institutions, Technology center, R&D center
Relevant taxes: Customs Duties / VAT / Consumption Tax

Potential impacts on businesses:
- Operational costs reduced
- Compliance risks due to regulatory uncertainties reduced

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Tax incentives to support innovation and research

The Ministry of Finance (MOF), together with the General Administration of Customs (GAC) and the State Administration of Taxation (SAT) on 27 December 2017 jointly issued *Notice of the Import Tax Policy to Support Technological Innovation During the "13th Five-Year-Plan" Period* (Cai Guan Shui [2016] No. 70, "Circular 70") (See KPMG China Tax Alert, Issue 3, January 2017). This policy is effective from 1 January 2016 to 31 December 2020.

Circular 70 continues the existing import taxes incentives for goods imported by scientific research institutions and schools. Under this incentive, scientific research institutions and schools that import goods used for scientific research, technological development and education shall be exempted from import duties, VAT and consumption tax. This is provided that such goods cannot be produced in China or where the equivalents produced in China do not meet the specifications of business. As a supplementary measure, Circular 70 also provides that:

- Technology development organizations and other entities importing goods that are used for scientific and technological development shall be exempted from import duties, VAT and consumption tax, provided such goods cannot be produced in China or where the equivalents produced in China do not meet the specifications of business;
- Importers of published materials, which import books and reference materials used for scientific research and education by scientific research institutions or schools, shall be exempted from import VAT.

Circular 70 also provides interpretation for the coverage of scientific research institutions, technology development organizations, schools and importers of published materials, they include: various scientific research institutions, colleges and universities, national engineering research centres and corporate technology centres (approved by NDRC, MOF, GAC, SAT and Ministry of Science and Technology (MOST)), national key labs, national engineering technology research centre, national public service demonstration platform for small and medium-sized enterprises (approved by Ministry of Industry and Information Technology, MOF, GAC and SAT), foreign-funded research & development (R&D) centres (approved by local authorities for commercial, financial, customs and tax), etc., which follow correspond in any way to the four categories outlined above.

In a bid to enhance the administration for this incentive, on 14 January 2017, ten authorities, including the MOF, the Ministry of Education, the NDRC, jointly issued Cai Guan Shui [2016] No. 71 ("Circular 71"), to further clarify the following matters:

- The entitlement to tax exemption for corporate technology centres shall be determined by NDRC in conjunction with MOF, GAC and SAT, subject to *Administrative Measures for Accreditation of State-level Corporate Technology Centres* (NDRC, MOST, MOF, GAC and SAT Order No. 34, see KPMG China Tax Weekly Update (Issue 16, May 2016) for details).
- Where an eligible foreign-funded R&D centre submits the materials for application of the tax exemption with the local commerce administration where it is located, the application shall be reviewed by provincial commerce administration in conjunction with other authorities at the same level. These include the authorities for finance, state taxation, as well as the local customs office (subordinate to the GAC) where the foreign-funded R&D centre is located. In addition, VAT on China-made equipment purchased by approved foreign-funded R&D centres in China may be fully refunded before 31 December 2018. The conditions that have been set for foreign-funded R&D centres to enjoy the VAT incentives are the same to enjoy the import taxes incentives granted in Circular 70, see KPMG China Tax Weekly Update (Issue 45, December 2016) for details).

- Circular 71 also sets out the administrative measures for technology-based private non-enterprise organizations and national public service demonstration platforms for small and medium-sized enterprises to enjoy the import taxes incentives. The relevant measures for national engineering research centres to enjoy import taxes incentives will be enacted by the NDRC jointly with other authorities The measures for other entities engaged in scientific research and technology development, such as national key labs, national key labs of enterprises, national engineering technology research centre, will be enacted by MOST jointly with other relevant authorities.

Reference: SAT Announcement [2017] No. 4
Issuance date: 22 February 2017
Effective date: 1 March 2017

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

Potential impacts on businesses:

- Operational costs reduced

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Further VAT implementation rules

In 1 August 2016, the SAT launched a pilot program which involves self-issuance of special VAT invoices by small-scale VAT taxpayers in the accommodation industry in 91 cities. This was expanded nationwide from 1 November 2016 (please refer to KPMG *China Tax Weekly Update (Issue 27, July 2016)* for details). In view of the satisfactory operation of the pilot program, the SAT on 22 February 2017 issued Announcement [2017] No. 4, to bring small-scale VAT taxpayers in the attestation/consultation sector, on a nationwide basis, into the VAT invoice self issuance pilot program, effective from 1 March 2017. Pursuant to Announcement No. 4:

- Where small-scale VAT taxpayers in the attestation/consultation sector have a monthly income subject to VAT exceeding RMB 30,000 then they may issue special VAT invoices, by themselves, through the new VAT invoice system* (an alternative threshold is quarterly income exceeding RMB 90,000). In-charge state tax authorities will no longer issue VAT invoices on behalf of such taxpayers.
- Where taxpayers need to issue special VAT invoices for sale of immovable properties, they must still apply to the local tax authorities to issue the relevant invoices on their behalf (i.e. self-issuance is not permitted for such invoices).

* The new VAT invoice online system was launched by the SAT from 2015. This aims to ease the burden of tax authorities and taxpayers by means of: (i). Having the online system store and provide access to information on all VAT taxpayers and VAT invoices; (ii). general VAT taxpayer and small-scale VAT taxpayers may, through the system, issue special VAT invoices, ordinary VAT invoices, uniform invoices for sales of motor vehicles and electronic ordinary VAT invoices; (iii). allow VAT taxpayers to deal online with vast majority tax-related matters, such as obtaining/issuing/verifying invoices, and conducting tax filing and payment.

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