



China Tax Weekly Update

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

Potential impacts on businesses:

- Effective tax burden reduced
- Operational costs reduced

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Government sets out key tax work items for 2017

Premier Li Keqiang, at the opening of the 5th session of China's 12th National People's Congress (NPC) on 5 March 2017, delivered the *2017 Report on the Work of the Government*, which covers the government's key tasks for 2017. Finance and tax related highlights of the *Report on the Work of the Government* are as follows:

Reduce business costs

- Expand the number of small enterprises who can benefit from preferential Corporate Income Tax (CIT) treatment. Under the existing rules, small enterprises whose annual taxable income under RMB300,000, are allowed to pay CIT on 50% of their whole income at a rate of 20% (i.e., effective rate is 10%). The government aims to expand the number of enterprises covered by this special tax treatment by providing that small enterprises with taxable income under RMB500,000 can use the incentive.
- Increase the research and development (R&D) expense super deduction for science and technology-related small and medium enterprises (SME). Under the current policy, R&D expenses incurred by a Chinese enterprise can give rise to an additional 50% bonus deduction for CIT purposes (above and beyond the deduction of the amount of the expense itself). The bonus deduction for SMEs will now be lifted to 75%.
- Significantly reduce enterprise "non-tax" fiscal burdens. This means reducing and regularizing the imposition of various local government fees and mandatory contributions to governmental funds. Social security contribution rates will also continue to be lowered (the so-called "five insurances plus housing fund").

* For more on recent efforts to reduce enterprise "non-tax" fiscal burdens, please see *KPMG China Tax Weekly Update (Issue 38, November 2016)*, *(Issue 7, February 2017)*, *(Issue 8, February 2017)* for details.

Fiscal system reform

- Improve on 2016 VAT reform policies and simplify the VAT rate structure, reducing the four tax brackets to three in 2017.
- Develop a new plan for the division of tax revenues between the central and local levels of government, and improve the operation of the local tax system

* For more on VAT reform, please see *KPMG China Tax Weekly Update (Issue 16, May 2016)*, *(Issue 49, December 2016)*.

The timing of these changes to incentive policies has not yet been clarified. The Ministry of Finance (MOF)/State Administration of Taxation (SAT) and other relevant ministries would be expected to follow up on the Premier's statement in due course with detailed plans.

The government's 2017 work report also includes plans to advance enterprise regulatory/business system reform in 2017 including:

- (i). Increase the number of pilot areas in which the "negative list" approach is used to determine the sectors in which domestic and foreign market players can make investments (this approach now is being piloted in Tianjin, Shanghai, Fujian and Guangdong);
- (ii). Further steps for combination of multiple government registrations, licenses and permits into a single registration (this follows on from the 'five licenses into one' reform, which was officially implemented on 1 October 2016);
- (iii). Increase the scope of the "certificate-license separation" pilot reform (under this reform certain pre-approvals for permits are replaced with simple recordal filings - this is currently being piloted in the Shanghai Pudong new area);
- (iv). Further reduction of restrictions on foreign investment in the service, manufacturing and mining business sectors.

Please refer to KPMG *China Tax Weekly Update* ([Issue 14, April 2016](#)), ([Issue 34, September 2016](#)), ([Issue 47, December 2016](#)), ([Issue 2, January 2017](#)), ([Issue 4, January 2017](#)) for more details.

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Relevant industries: N/A
Relevant companies: N/A
Relevant taxes: IIT / RET /
Tobacco Taxes / Vessel
Tonnage Dues

Potential impacts on
businesses:

- Need to pay close attention to the progress of the relevant tax reform and legislative work

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

Individual Income Tax reform under development

On 7 March 2017, Mr. Xiao Jie, China's new Minister of Finance since November 2016, clarified a number of fiscal reform issues at a press conference on the sidelines of the 5th session of China's 12th NPC.

With regard to the Individual Income Tax (IIT) reform, Mr. Xiao indicated that:

- IIT reform plans are still under development and the revised system will seek to tax the comprehensive income of individuals.
- Tax will be calculated and collected on an annual comprehensive basis in respect of wages and salaries, royalties etc. This will be a change from tax calculation and collection on a monthly basis under the current system. For other types of income and gain, such as disposal gains on transfer of property, IIT will continue to be levied on a separate income category basis (e.g. disposal gains will continue to be taxed separately at 20%).
- New tax deduction items may be introduced (e.g. education expenses for two-child families).
- The standard tax allowances provided under the IIT law will be re-determined to take into account the great increases in average personal consumption expenditure in China, since the current IIT rules were set in 2011.

Tax collection and administration for the new IIT system will be aided by the improvements being made in the collection and big data analysis of taxpayer information. The IIT law will be submitted to the NPC for approval once finalized (timing for the IIT law would submitted for approval has yet to be indicated).

* Fu Ying, the spokesperson of the NPC noted at a [press conference](#) held on 4 March 2017 that the long awaited real estate tax (RET) will not be put for NPC legislative approval in 2017 although it has been included in the 12th NPC's five-year plan.

** On 8 March 2017, Mr. Zhang Dejiang, the chairman of the Standing Committee of the NPC, delivered that committee's [work report](#). Mr. Zhang indicated that, in 2017, China will:

- (i). Put existing State Council regulations, such as tobacco tax and vessel tonnage dues, on a statutory basis (i.e., to turn them into laws passed by NPC; following this China would have 8 tax laws in total);
- (ii). Modify the SME promotion law and the securities law, and enact the e-commerce law (the draft e-commerce law was submitted to the NPC Standing Committee for a first review on 19 December 2016, see KPMG [China Tax Weekly Update \(Issue 49, December 2016\)](#) for more details).

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 Relevant taxes: IIT

Potential impacts on businesses:

- Need to pay close attention to the progress of the IIT reform and legislative work

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

Preferential IIT treatment for private retirement plans

Per news posted to the MOF website on 8 March 2017, China plans to pilot preferred IIT treatment for private retirement plans (the so-called voluntary complementary personal savings scheme), which is the third of three pillars in China's pension insurance system. The mandatory first pillar is government schemes funded with social security contributions; the second pillar is a voluntary or supplementary pension benefit called the enterprise annuity. Developing this system is seen to be important in the context of China's aging society.

Per the MOF website news item Mr. Ou Wenhan, director of the general office/spokesperson of the MOF, China plans to put in place an Exemption-Exemption-Taxation (EET) system of the sort in use in many other countries (including the US 401K plan).

- This would involve contributions to a commercial endowment insurance plan, which are deposited in an individual retirement account (IRA), being treated as tax deductible when calculating IIT. This would make the income contributed to the plan effectively "exempt" at time of contribution.
- Investment gains generated by the funds in the IRA would be treated as tax exempt.
- IIT would apply when the amounts in the IRA are withdrawn at retirement.

Details of the IIT preferential treatment, including the scope of permissible IRA-linked investment products, tax collection mechanisms, tax information sharing arrangements, and risk-based supervision are all still under discussion and remain to be finalized.



Qualifying charities for CIT deductions - 2016 YOA

On 6 March 2017, the MOF, SAT and Ministry of Civil Affairs (MCA) jointly issued Announcement [2017] No. 23. This listed out the 1st batch of social bodies, engaged in public welfare activities, in respect of which charitable contributions are eligible for CIT deduction for the 2016 year of assessment (YOA). Charitable donations made by enterprises, to any of the listed 102 social bodies, are permitted to be deducted from the taxable income of the enterprise, subject to a limit of 12% of the enterprise's gross annual profit*.

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

* In the newly revised CIT Law, charitable donations exceeding 12% of gross annual profit are permitted to be carried forward and be deducted from the taxable income of an enterprise over the following 3 years. However, it has yet to be clarified that whether the new rule can be applied for charitable donations made after 1 September 2016, and we will monitor this matter. You may refer to KPMG *China Tax Weekly Update (Issue 8, March 2017)* and *(Issue 10, March 2016)* for more details about the revised CIT Law and the Charity Law.

