

# China Tax Weekly Update

#### **ISSUE 10 | March 2017**



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

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

Potential impacts on businesses:

- Effective tax burden reduced
- Operational costs
   reduced

You may click <u>here</u> to access full content of the circular.

## Government sets out key tax work items for 2017

Premier Li Keqiang, at the opening of the 5<sup>th</sup> session of China's 12<sup>th</sup> 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	<ul> <li>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.</li> <li>Increase the research and development (R&amp;D) expense super deduction for science and technology-related small and medium enterprises (SME). Under the current policy, R&amp;D expenses incurred by a Chinese enterprise can give rise to an additional 50% bonus deduction for CIT purposes (above and beyond the deduction for SMEs will now be lifted to 75%.</li> <li>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</li> </ul>
	<ul> <li>also continue to be lowered (the so-called "five insurances plus housing fund").</li> <li>* For more on recent efforts to reduce enterprise "non-tax" fiscal burdens, please see <i>KPMG China Tax Weekly Update</i> (<i>Issue 38, November 2016</i>), (<i>Issue 7, February 2017</i>), (<i>Issue 8, February 2017</i>) for details.</li> </ul>
	Improve on 2016 VAT reform policies and simplify the VAT
Fiscal system reform	<ul> <li>rate structure, reducing the four tax brackets to three in 2017.</li> <li>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</li> <li>* For more on VAT referse places and KRMG China Tax Weekly.</li> </ul>
	* For more on VAT reform, please see KPMG <i>China Tax Weekly Update <u>(Issue 16, May 2016)</u>, <u>(Issue 49, December 2016)</u>.</i>

© 2017 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. © 2017 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

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* <u>(Issue 14, April 2016)</u>, <u>(Issue 34, September 2016)</u>, <u>(Issue 47, December 2016)</u>, <u>(Issue 2, January 2017)</u>, <u>(Issue 4, January 2017)</u> for more details.

### 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 redetermined 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 <u>press conference</u> 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 12<sup>th</sup> NPC's five-year plan.

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

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 <u>here</u> to access full content of the circular.

\*\* On 8 March 2017, Mr. Zhang Dejiang, the chairman of the Standing Committee of the NPC, delivered that committee's <u>work report</u>. 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 ecommerce law (the draft e-commerce law was submitted to the NPC Standing Committee for a first review on 19 December 2016, see KPMG <u>China Tax</u> <u>Weekly Update (Issue 49, December 2016)</u> for more details).

### 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 IRAlinked investment products, tax collection mechanisms, tax information sharing arrangements, and risk-based supervision are all still under discussion and remain to be finalized.

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

Relevant industries: N/A Relevant companies: N/A 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 <u>here</u> to access full content of the circular.



## 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.



**Becky Wong** 

Tel. +852 2978 8271

Barbara Forrest Tel. +852 2978 8941

Tel. +852 2685 7457

Tel. +852 2978 8942

kate.lai@kpmg.com

Travis Lee Tel. +852 2143 8524

travis.lee@kpmg.com

Irene Lee Tel. +852 2685 7372 irene.lee@kpmg.com

Alice Leung Tel. +852 2143 8711 alice.leung@kpmg.com

Tel. +852 2685 7605

Ivor Morris Tel. +852 2847 5092

Tel. +852 2143 8525

Malcolm Prebble Tel. +852 2684 7472

David Siew Tel. +852 2143 8785

**Murray Sarelius** 

John Timpany Tel. +852 2143 8790

Lachlan Wolfers

Steve Man

Daniel Hui Tel. +852 2685 7815 daniel.hui@kpmg.com

Erica Chan Tel. +852 3927 5572

Tel. +852 2685 7791

Tel. +852 2978 8976 steve.man@kpmg.com

Curtis Ng Tel. +852 2143 8709

curtis.ng@kpmg.com

Karmen Yeung Tel. +852 2143 8753

erica.chan@kpmg.com

Adam Zhong Tel. +852 2685 7559

adam.zhong@kpmg.com

karmen.veung@kpmg.com

david.siew@kpmg.com

Tel. +852 3927 5671 murray.sarelius@kpmg.com

john.timpany@kpmg.com

lachlan.wolfers@kpmg.com

benjamin.pong@kpmg.com

malcolm.j.prebble@kpmg.com

Benjamin Pong

ivor.morris@kpmg.com

jocelyn.lam@kpmg.com

Jocelyn Lam

john.kondos@kpmg.com

John Kondos

Kate Lai

becky.wong@kpmg.com

barbara.forrest@kpmg.com

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

Khoonming Ho lead of Tax KPMG China Tel. +86 (10) 8508 7082 khoonming.ho@kpmg.com

Beijing/Shenyang David Ling Tel. +86 (10) 8508 7083 david.ling@kpmg.com

Tianjin Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com

Qingdao Vincent Pang Tel. +86 (532) 8907 1728 vincent.pang@kpmg.com

Shanghai/Naniing Lewis Lu Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com

Chenadu Anthony Chau Tel. +86 (28) 8673 3916 anthony.chau@kpmg.com

Hangzhou John Wang Tel. +86 (571) 2803 8088 john.wang@kpmg.com

Guangzhou Lilly Li Tel. +86 (20) 3813 8999 lilly.li@kpmg.com

Fuzhou/Xiamen Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com

Shenzhen Eileen Sun Tel. +86 (755) 2547 1188 eileen.gh.sun@kpmg.com

Hona Kona Karmen Yeung Tel. +852 2143 8753 karmen.yeung@kpmg.com Northern China

David Ling Head of Tax Northern Region Tel. +86 (10) 8508 7083 david.ling@kpmg.com

Andy Chen Tel. +86 (10) 8508 7025 andy.m.chen@kpmg.com

Conrad TURLEY Tel. +86 (10) 8508 7513 conrad.turley@kpmg.com

Milano Fang Tel. +86 (532) 8907 1724 milano.fang@kpmg.com

Tony Feng Tel. +86 (10) 8508 7531 tony.feng@kpmg.com

John Gu Tel. +86 (10) 8508 7095 john.gu@kpmg.com

**Rachel Guan** Tel. +86 (10) 8508 7613 rachel.guan@kpmg.com

Helen Han Tel. +86 (10) 8508 7627 h.han@kpmg.com

Michael Wong Tel. +86 (10) 8508 7085 michael.wong@kpmg.com

Josephine Jiang Tel. +86 (10) 8508 7511 josephine.jiang@kpmg.com

Henry Kim Tel. +86 (10) 8508 5000 henry.kim@kpmg.com

Li Li Tel. +86 (10) 8508 7537 li.li@kpmg.com

Lisa Li Tel. +86 (10) 8508 7638 lisa.h.li@kpmg.com

Thomas Li Tel. +86 (10) 8508 7574 thomas.li@kpmg.com

Larry Li Tel. +86 (10) 8508 7658 larry.y.li@kpmg.com

Simon Liu Tel. +86 (10) 8508 7565 simon.liu@kpmg.com

Alan O'Connor Tel. +86 (10) 8508 7521 alan.oconnor@kpmg.com

Vincent Pang Tel. +86 (10) 8508 7516 +86 (532) 8907 1728 vincent.pang@kpmg.com

Naoko Hirasawa Tel. +86 (10) 8508 7054 naoko.hirasawa@kpmg.com

Shirley Shen Tel. +86 (10) 8508 7586 yinghua.shen@kpmg.com

Joseph Tam Tel. +86 (10) 8508 7605 laiyiu.tam@kpmg.com

Joyce Tan Tel. +86 (10) 8508 7666 joyce.tan@kpmg.com

Jessica Xie Tel. +86 (10) 8508 7540 jessica.xie@kpmg.com

**Cvnthia Xie** Tel. +86 (10) 8508 7543 cvnthia.pv.xie@kpmq.com

kpmg.com/cn

Christopher Xing Tel. +86 (10) 8508 7072 christopher xing@kpmg.com The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavour to provide accurate and timelv information, there can be no quarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such

information without appropriate professional advice after a thorough examination of the particular situation.

Irene Yan Tel +86 (10) 8508 7508 irene.yan@kpmg.com

Jessie Zhang Tel. +86 (10) 8508 7625 jessie.j.zhang@kpmg.com Sheila Zhang Tel: +86 (10) 8508 7507

sheila.zhang@kpmg.com Tiansheng Zhang Tel. +86 (10) 8508 7526 tiansheng.zhang@kpmg.com

Tracy Zhang Tel. +86 (10) 8508 7509 tracy.h.zhang@kpmg.com

Eric Zhou Tel. +86 (10) 8508 7610 ec.zhou@kpmg.com

**Central China** 

Lewis Lu

Head of Tax, Eastern & Western Region Tel. +86 (21) 2212 3421 lewis.lu@kpmg.com

Alan Garcia Tel. +86 (21) 2212 3509 alan.garcia@kpmg.com

Cheng Chi Tel. +86 (21) 2212 3433 cheng.chi@kpmg.com

Yasuhiko Otani Tel. +86 (21) 2212 3360 yasuhiko.otani@kpmg.com

Johnny Deng Tel. +86 (21) 2212 3457 iohnny.deng@kpmg.com

Cheng Dong Tel. +86 (21) 2212 3410 cheng.dong@kpmg.com

Marianne Dong Tel. +86 (21) 2212 3436 marianne.dong@kpmg.com

Chris Ge Tel. +86 (21) 2212 3083 chris.ge@kpmg.com

Chris Ho Tel. +86 (21) 2212 3406 chris.ho@kpmg.com

Henry Wong Tel. +86 (21) 2212 3380 henry.wong@kpmg.com

Jason Jiang Tel. +86 (21) 2212 3527 jason.jt.jiang@kpmg.com

Flame.lin Tel. +86 (21) 2212 3420 flame.jin@kpmg.com

Sunny Leung Tel. +86 (21) 2212 3488 sunny.leung@kpmg.com

Michael Li Tel. +86 (21) 2212 3463 michael.y.li@kpmg.com

Karen Lin Tel. +86 (21) 2212 4169 karen.w.lin@kpmg.com

Christopher Mak Tel. +86 (21) 2212 3409 christopher.mak@kpmg.com

Henry Ngai Tel. +86 (21) 2212 3411 henry.ngai@kpmg.com

Ruqiang Pan Tel. +86 (21) 2212 3118 ruqiang.pan@kpmg.com

Amy Rao Tel. +86 (21) 2212 3208 amy.rao@kpmg.com

Wavne Tan Tel. +86 (28) 8673 3915 wayne.tan@kpmg.com

Tanya Tang Tel. +86 (25) 8691 2850 tanya.tang@kpmg.com Rachel Tao

Tel. +86 (21) 2212 3473 rachel.tao@kpmg.com

Janet Wang Tel. +86 (21) 2212 3302 janet.z.wang@kpmg.com

John Wang Tel. +86 (21) 2212 3438 john.wang@kpmg.com

Mimi Wang Tel. +86 (21) 2212 3250 mimi.wang@kpmg.com

Jennifer Weng Tel. +86 (21) 2212 3431 iennifer.wena@kpma.com

Grace Xie Tel. +86 (21) 2212 3422 grace.xie@kpmg.com

Bruce Xu Tel. +86 (21) 2212 3396 bruce.xu@kpmg.com

Jie Xu Tel. +86 (21) 2212 3678 jie.xu@kpmg.com

Robert Xu Tel. +86 (21) 2212 3124 robert.xu@kpmg.com

Yang Yang Tel. +86 (21) 2212 3372 yang.yang@kpmg.com

William Zhang Tel. +86 (21) 2212 3415 william.zhang@kpmg.com Dylan Jeng Tel. +86 (21) 2212 3080

dylan.jeng@kpmg.com Hanson Zhou Tel. +86 (21) 2212 3318 hanson.zhou@kpmg.com

Anthony Chau Tel. +86 (21) 2212 3206 anthony.chau@kpmg.com

Michelle Zhou Tel. +86 (21) 2212 3458 michelle.b.zhou@kpmg.com

Southern China

Lilly Li Head of Tax, Southern Region Tel. +86 (20) 3813 8999 lillv.li@kpma.com

Penny Chen Tel. +1 (408) 367 6086 penny.chen@kpmg.com

Vivian Chen Tel. +86 (755) 2547 1198 vivian.w.chen@kpmg.com

Sam Fan Tel. +86 (755) 2547 1071 sam.kh.fan@kpmg.com

Joe Fu Tel. +86 (755) 2547 1138 joe.fu@kpmg.com

Ricky Gu Tel. +86 (20) 3813 8620 ricky.gu@kpmg.com

Fiona He Tel. +86 (20) 3813 8623 fiona.he@kpmg.com

© 2017 KPMG, a Hong Kong partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved. © 2017 KPMG Advisory (China) Limited, a wholly foreign owned enterprise in China and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity. All rights reserved.

Angie Ho Tel. +86 (755) 2547 1276 angie.ho@kpmg.com

Aileen Jiang Tel. +86 (755) 2547 1163 aileen.jiang@kpmg.com

Cloris Li Tel. +86 (20) 3813 8829 cloris.li@kpmg.com

Jean Li Tel. +86 (755) 2547 1128 jean.j.li@kpmg.com

**Sisi Li** Tel. +86 (20) 3813 8887 sisi.li@kpmg.com

Mabel Li Tel. +86 (755) 2547 1164 mabel.li@kpmg.com

Kelly Liao

Tel. +86 (20) 3813 8668 kelly.liao@kpmg.com

Patrick Lu Tel. +86 (755) 2547 1187 patrick.c.lu@kpmg.com

Grace Luo Tel. +86 (20) 3813 8609 grace.luo@kpmg.com

Maria Mei Tel. +86 (592) 2150 807 maria.mei@kpmg.com

Tel. +86 (755) 2547 1188

eileen.gh.sun@kpmg.com

Michelle Sun Tel. +86 (20) 3813 8615

michelle.sun@kpmg.com

Bin Yang Tel. +86 (20) 3813 8605

Lixin Zeng Tel. +86 (20) 3813 8812

Head of Tax, Hong Kong Tel. +852 2826 7165

ayesha.lau@kpmg.com

Tel. +852 2826 7226

Fel. +852 2826 7166

Yvette Chan Tel. +852 2847 5108

Tel. +852 2143 8777

lu.l.chen@kpmg.com

Rebecca Chin Tel. +852 2978 8987

Wade Wagatsuma

Tel. +852 2685 7806

Tel. +852 2143 8509

natalie.to@kpmg.com

Matthew Fenwick

Tel. +852 2143 8761

Sandy Fung Tel. +852 2143 8821 sandy.fung@kpmg.com

Charles Kinsley Tel. +852 2826 8070

Stanley Ho Tel. +852 2826 7296 stanley.ho@kpmg.com

charles.kinsley@kpmg.com

Natalie To

rebecca.chin@kpmg.com

wade.wagatsuma@kpmg.com

matthew.fenwick@kpmg.com

Lu Chen

vvette.chan@kpmg.com

darren.bowdern@kpmg.com

Darren Bowdern

chris.abbiss@kpmg.com

lixin.zeng@kpmg.com

Hong Kong

Ayesha M. Lau

Chris Abbiss

bin.yang@kpmg.con

Eileen Sun