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Reference: SAT
Announcement [2017] No. 30
Issuance date: 14 August
2017
Effective date: 1 September
2017, 1 January 2018

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

Potential impacts on
businesses:

- Compliance risks due to
regulatory uncertainties
reduced

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full content of the circular.

VAT reform administrative clarifications

On 14 August 2017, the State Administration of Taxation (SAT) issued Announcement [2017] No. 30 ("Announcement 30"). This set out value-added tax (VAT) implementation rules clarifying the following issues:

- i. Where a taxpayer has completed a VAT exemption recordal filing on the initial conduct of a cross-border taxable supply, no further recordal filing is required for subsequent supplies (SAT in its [Announcement \[2016\] No. 29](#) stipulated the filing procedure for cross-border taxable services subject to tax exemption, see KPMG [China Tax Weekly Update \(Issue 18, May 2016\)](#) for more details).
- ii. Rules are clarified for taxpayers providing transportation services to a consignor (i.e. a seller of goods who wishes to send/ship these goods overseas). The new rules deal with the case where the taxpayer, in providing the transport service, collects fees and bears risks and responsibilities of the carrier, and then subcontracts the whole or part of the service to an actual carrier. In such case the input VAT on toll fees and refined oil for provision of the subcontracted service, incurred by the taxpayer, can be credited against his output VAT amount.
- iii. Where an individual wishes to rent out residential property, and entrusts a letting agency to do so, then the tax authorities may, upon application by the entrusted agency, issue VAT invoices on behalf of the individual.
- iv. Where a financial institution discounts commercial and interbank bills in the course of business, VAT ordinary invoices must be issued based on the full amount of interest income arising from discounted commercial and interbank bills (see KPMG [China Tax Weekly Update \(Issue 28, July 2017\)](#) for the VAT calculation and filing).

Announcement 30 has entered into effect from 1 September 2017 except for issue iv., which will be effective from 1 January 2018.

In addition, an 18 August State Council executive meeting indicated the direction of the future VAT reform including:

- Greater utilization of electronic invoices and enhance digitalized management of VAT collection.
- Improve VAT policies for industries, such as manufacturing, financial and construction sectors.
- Expand the use of the general VAT calculation method (i.e. based on calculation of output and input VAT) and phase out the use of the simplified VAT method (which imposes a lower rate of VAT on enterprise revenue, without input VAT credit availability).

- Further optimize the VAT rate structure and tax rates (From July 2017 China abolished the 13% VAT rate, reducing the VAT rate brackets from four to three, and subjecting formerly 13% VAT rated services to the 11% rate, see KPMG [China Tax Weekly Update \(Issue 18, May 2017\)](#) for details).
- Put VAT on a statutory basis with a VAT Law passed by the National People's Congress in the place of the existing VAT Regulations issued by the State Council.

* You may access the following KPMG publications for VAT policies and their impacts:

- [China Tax Alert: New VAT rules applicable to Asset Management Products \(Issue 22, July 2017\)](#)
- [China Tax Alert: Significant retrospective changes introduced to clarify VAT reform policies \(Issue 38, December 2016\)](#)
- [China Tax Alert: China's SAT sets out the VAT Treatment of Prepaid cards in Announcement 53 \(Issue 37, December 2016\)](#)
- [China Tax Alert: New Circular expands upon China's VAT exemptions for financial services industry \(Issue 20, July 2016\)](#)
- [China Tax Alert: New Circular clarifies China's VAT treatment of reinsurance arrangements \(Issue 17, June 2016\)](#)



Reference: State Council Order No. 683

Issuance date: 21 August 2017

Effective date: 1 October 2017

Relevant industries:

Financing guarantee sector

Relevant companies:

Companies engaged in providing financing guarantee services

Relevant taxes: N/A

Potential impacts on businesses:

- Compliance risks due to regulatory uncertainties reduced

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China tightens regulation of finance guarantee companies

On 21 August 2017, the State Council released *Administrative Regulations on Supervision of Financing Guarantee Companies* (State Council Order No. 683, the "2017 Regulations"). The 2017 Regulations replaced the 2010-issued *Interim Measures for the Administration of Financing Guarantee Companies* (the "2010 Measures"), and will take effect from 1 October 2017. Financing guarantee business is defined under 2017 Regulations to cover provision of guarantees for debt financing, either in the form of borrowings or debentures.

The 2017 Regulations made significant changes to the 2010 Measures:

Set up, alteration and termination	<ul style="list-style-type: none"> • The 2017 Regulations require a financing guarantee company to have a registered capital of at least RMB 20 million for set up approval from local government regulatory authorities (minimum registered capital required in the 2010 Measures was RMB 5 million). • Where a financing guarantee company plans to set up branches in different provinces, it must meet the following criteria (this is a new requirement set forth in the 2017 Regulation): <ul style="list-style-type: none"> ➤ Its registered capital must not be less than RMB 1 billion; and ➤ It has operated a financing guarantee business for at least three years already, and this was profitable in the most recent two fiscal years • Where a financing guarantee company is dissolved, in addition to conducting the liquidation, new requirements are set out in the 2017 Regulations. The company must arrange for another company to assume obligations to make any guarantee payments required under outstanding guarantee contracts.
Operational rules	<ul style="list-style-type: none"> • The 2017 Regulations provide that where a financing guarantee company provides services, <i>inter alia</i>, to small enterprises, agriculture sector businesses, rural villages and farmers, the company may make guarantee commitments which amount to 15 times the value of its net assets (limits for other guarantees made by the company is 10 times of its net assets). • The 2017 Regulations further clarify that a financing guarantee company (i) must not provide financing guarantee services to its controlling shareholder and actually controlling party; (ii). must not provide financing guarantee services to its related parties under more favourable terms than would be provided to non-related parties. • The 2017 Regulation reiterates that a financing guarantee company must not engage in: <ul style="list-style-type: none"> ○ accepting deposits in any form; ○ operating their own loans or entrusted loans; or ○ making entrusted investments.

Transitional rules for established financing guarantee companies to meet their commitments under the 2017 Regulations are provided for, and a precise timeframe for compliance with the new rules is to be set out soon. The 2017 Regulations also clarify responsibilities supervision requirements for the regulatory authorities.

Reference: Ren She Ting Fa

[2017] No. 93

Issuance date: 3 August

2017

Effective date: 1 September
2017

Relevant industries: All

Relevant companies:

Companies assign
employees to Netherlands /
China

Relevant taxes: N/A

Potential impacts on
businesses:

- Operational costs reduced
- Compliance risks due to
regulatory uncertainties
reduced

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China-Netherlands social security agreement

On 10 August 2017, the Chinese Ministry of Human Resource and Social Security (MOHRSS) issued Ren She Ting Fa [2017] No. 93 ("Circular 93"), announcing that the 2016-signed [Agreement on Social Security with Netherlands](#) ("China-Netherlands social security agreement") and its [Memorandum of Understanding](#) (MOU) come into effect from 1 September 2017.

Circular 93 clarifies the following implementation matters:

- Where a Chinese enterprise assigns employees to work in the Netherlands, an exemption may be obtained from payment of social security contributions in the Netherlands. This includes pension insurance, unemployment insurance and survivors insurance. The exemption covers both employer and employee contributions.
- Where a Netherlands enterprise assigns employees to work in China, an exemption may be obtained from payment of security contributions in China, including employee basic pension insurance and unemployment insurance. The exemption covers both employer and employee contributions.
- Persons eligible for the exemption include assigned employees, seafarers, aircraft crew, civil servants, members of diplomatic missions and consular posts.
- A maximum five-year exemption period can be granted to the assigned employees. Where an assignment period exceeds five years, the exemption period can be extended for no more than one year, subject to consent from competent authorities of both countries.

The detailed procedures for application of the social security exemption are set out in Circular 93.

* China's Social Insurance Law requires employers and their employees to contribute towards social insurance schemes, including pensions, medical, unemployment, maternity insurance and work-related injury insurance. Since 15 October 2011, expatriate employees working in China are also required to contribute. To mitigate the burden of double contributions in two countries by cross-border employees, China has been rapidly building up its network of bilateral social security agreements. It has so far signed them with 9 countries, including Germany, South Korea, Denmark, Finland, Canada, Switzerland, Netherland, France and Spain. These have all entered into force, except for the China-France and China-Spain agreements. China is also negotiating agreements with further countries, including Belgium, Serbia, Japan and Romania.

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