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Relevant companies: All
Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced

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China reduces pre-approval requirements for certain business activities

On 6 September 2017, an executive meeting of the State Council committed to reduce the pre-approval requirements for conducting certain business activities:

- Expand the pilot "certificate-license separation" pilot reform to further locations in China, namely to 10 free trade zones (FTZs). The pilot had been operated in the Shanghai Pudong New Area since 2015 under Guo Han [2015] No. 222. The reform measures cancel or simplify administrative licensing requirements for businesses (e.g. permits to operate ports) and affect 116 items.
- Cancel 52 State Council administrative approval items (e.g. approval to tender for overseas projects).
- Cancel 22 delegated approval items. These items were delegated from central government to local government level before (e.g. approval to carry out wood logging operations).

These changes are part of a broader State Council initiative to cut red tape for business, and give the market a more central role in guiding economic activity. So far, 697 administrative approval items have been abolished since 2014, about 41% of the total. See KPMG *China Tax Weekly Update (Issue 8 March 2016)* for previously cancelled items.

Specifically looking at the "certificate-license separation" reform, the Shanghai pilot altered the 116 licensing items as follows:

(i) For 10 activities previously covered by administrative licences, the prior pre-approvals have been abolished, and no recordal filing is required (e.g. outdoor advertising installations).

(ii) For 6 items the pre-approvals have been changed to simple recordal filing, e.g. processing trade contracts.

(iii) 110 administrative license pre-approvals remain, but with simplifying modifications.

These same 116 items will now be liberalized in the same manner across the 10 FTZs located in Tianjin, Liaoning, Zhejiang, Fujian, Henan, Hubei, Guangdong, Chongqing, Sichuan and Shaanxi. The implementing State Council Circular Guofa [2017] No. 45, issued on 22 September 2017, also made it possible for the local governments to bring further administrative licensing items within the scope of these liberalizing reforms. Going further, these reform measures may also be implemented in national innovation demonstration zones and high and new technology industrial development zones, subject to approval by provincial-level governments. See KPMG *China Tax Weekly Update (Issue 18, May 2016)* for details.

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Potential impacts on businesses:

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

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VAT general taxpayer registration simplified

In recent years the government has been pursuing a program of replacing administrative pre-approvals with simple registration requirements, coupled with more targeted and effective follow up audit and review. In the VAT space that it was already decided in 2015 that pre-approval for recognition of VAT general taxpayer status would be replaced by a simple registration requirement; see State Council Circular Guo Fa [2015] No.11 and SAT Announcement [2015] No. 18. However, until now the 2010-issued SAT *Administrative Measures for Recognition of General VAT Taxpayers Status* (SAT Order No. 22) had remained in place, with their pre-approval requirements. These are now to be replaced with measures operationalising the move to simple registrations, and on 1 September 2017, the opened a public consultation on the Draft *Administrative Measures for Registration of VAT General Taxpayers Status* (the "2017 measures").

To briefly exchange the significance of the change, VAT general taxpayer status means that the taxpayer charges full VAT rates on its supplies to customers, but can claim offsetting VAT input credits. VAT general taxpayers can issue special VAT invoices, allowing their business customers to, in turn, claim VAT input credits. Enterprises not meeting the registration criteria cannot claim VAT input credits or issue special VAT invoices, and generally fall into the small VAT taxpayer regime. For these enterprises, which use the 'simplified method', a reduced VAT rate applies to the supplies they make, and VAT input credits are not available. It might separately be noted that the government plans to phase out the use of the simplified VAT method over time, bringing all businesses into the scope of the general VAT calculation method and the move from VAT registration pre-approval to simple registration will further facilitate this (see the 18 August 2017 State Council executive meeting decisions and *KPMG China Tax Weekly Update (Issue 34, September 2017)* for details).

The 2017 measures make certain important revisions to the 2010 measures:

- When a taxpayer registers for general taxpayer status the tax authorities must accept the registration so long as the submitted information is consistent with the information it supplied at the time of its original taxpayer registration. On-site inspection will not be required.
- The bar for registration is lowered. Under 2010 measures, where a taxpayer's annual turnover does not exceed the standard RMB5 million threshold set for VAT general taxpayer registration, the taxpayer may still register, (i) it has a fixed place for production and operation, and (ii) it has a sound accounting system that can provide accurate tax supporting documents. The 2017 measures alter this so only (ii) is needed.

The 2017 measures build on Announcement [2015] No. 18, and further guidance in SAT Announcement [2016] No. 23, and should be read together.

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Potential impacts on businesses:

- Risks of being challenged due to cross-border tax avoidance arrangements increased

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More OECD guidance on Country-by-Country reporting

The OECD's Inclusive Framework on BEPS has released two new sets of on the implementation of Country-by-Country (CBC) Reporting (BEPS Action 13) This is the fifth set of CBC guidance provided by the OECD [See KPMG *China Tax Weekly Update (Issue 29, July 2017)* ,*(Issue 16, April 2017)*, *(Issue 48, December 2016)* and *(Issue 41, November 2016)* for the previous fourth rounds of CBC guidance by the OECD]**.**

Existing guidance on the implementation of CBC Reporting is updated to cover:

- The definition of revenues: All revenue, gains, income, or other inflows shown in financial statements, prepared in accordance with applicable accounting rules, should be reported as Revenues in Table 1.
- The treatment of MNE groups with a short accounting period: As a transitional measure, jurisdictions may allow the Reporting Entity of an MNE Group with a short accounting period beginning on or after 1 January 2016 and ending before 31 December 2016 to file the required CBC report in accordance with the same timelines as for MNE Groups with a fiscal year ending on 31 December 2016. The date by which the CBC report is to be exchanged would be similarly extended.
- The treatment of the amount of income tax accrued and income tax paid: In general, a refund of income tax should be reported in Income Tax Paid (on Cash Basis) in the reporting fiscal year in which the refund is received.

Guidance has also been released on the appropriate use of the information contained in CBC Reports. This includes guidance on the meaning of "appropriate use", the consequences of non-compliance with the appropriate use condition, and approaches that may be used by tax administrations to ensure the appropriate use of CBCR information.

* SAT Announcement [2016] No. 42, issued in July 2016, provides China’s CBC reporting administrative guidance. See the KPMG China Tax Alert below:

- ❑ *China Tax Alert: State Administration of Taxation (SAT) Issued Announcement on the Enhancement of the Reporting of Related Party Transactions and Administration of Contemporaneous Documentation (Issue 23, July 2016)*

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