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Reference: Shui Zong Fa [2017] No. 101
Issuance date: 14 September 2017
Effective date: N/A

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

Potential impacts on businesses:

- Operational costs reduced

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SAT to further simplify tax administration

On 14 September 2017, the State Administration of Taxation (SAT) issued Shui Zong Fa [2017] No.101 ("Circular 101") to further simplify the tax administration. 30 measures were set out in Circular 101 and the notable measures include:

- A measure addresses the case where a non-resident enterprise has set up operations in two or more locations in China, such that the enterprise has multiple China permanent establishments (PE). The non-resident enterprise may choose one of these locations to file a consolidated Corporate Income Tax (CIT) return with the local tax authority. Previously, non-resident enterprises needed pre-approvals from all of the affected local tax authorities before such a consolidated filing could be made.

Per clarification made by SAT officials and the current practice in Shanghai, under the new filing approach, profits and losses can be offset across the PEs. This offset should not affect the tax revenue allocation between tax authorities as the filing tax authority will reallocate the tax revenues across the other tax authorities.

- The manner in which VAT special invoices (i.e. invoices for which VAT input credits may be claimed) are administered will be linked to the taxpayer's tax credit rating. The maximum invoicing amount and invoice quotas will be determined based on the taxpayer's tax credit rating. The administration of VAT invoice quotas has been linked to taxpayers' credit rating already since 1 December 2016. See KPMG [China Tax Weekly Issue 45, December 2016](#) for more details.
- Simplify tax authority re-registration procedures for taxpayers relocating from one city (or county) to another city (or county) within one province. Under the current rules, such re-registration must first be conducted with the local administrations for industrial and commerce (AICs) and then with the relevant local tax authorities, which can be very time consuming.
- Simplify tax de-registration procedures for taxpayers.
- Improve recordal filing procedures for preferential tax treatments for taxpayers. In the future, taxpayers will keep the relevant documentation on file in-house, for presentation to the tax authorities in case of audit. This replaces the requirement to submit the documentation to the tax authorities.
- Under the current rules, where a withholding agent has executed a business contract or agreement with a non-resident enterprise in respect of income stipulated in Guo Shui Fa [2009] No. 3 (such as dividends, rents, royalties and etc.), a record filing for such contract or agreement must be made by the withholding agent. However, going forward, a recordal filing for such contract will no longer be required. Recordal filing procedures for outbound remittances will also be improved.

Circular 101 also sets out further tax administrative enhancements:

- Tighter risk management through (i) verification of the identity of persons handling tax-related matters on behalf of enterprises with the tax authorities; (ii) promotion of cross-regional cooperation on risk management; (iii) establish a dynamic credit rating system to assess taxpayers.
- Improve tax services by (i) facilitating the handling on various tax issues on a single visit to the tax authorities; and (ii) simplify and improve filing forms for VAT, Consumption tax, CIT, etc.
- Enhance tax enforcement through (i) standardizing tax administrative penalties; (ii) adopting a strict management process for taxes collected on a deemed basis; (iii) optimize the Golden Tax III IT system and the new VAT invoice system.

* On 24 May 2016, the State Council released Guo Fa [2016] No. 30 ("Circular 30"), setting out 15 key tasks for each government department for 2016. Circular 30 requires that each government department shall continue to push forward the reform on simplifying the administration procedures, delegation of more powers from higher to lower levels of government and optimization of government services in 2016 (See KPMG [China Tax Weekly Update \(Issue 20, May 2016\)](#) for details.)

Reference: Guo Ban Fa [2017] No. 80
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Relevant industries: All
Relevant companies: All
Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced

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Innovation-supporting finance and administrative reforms

On 14 September 2017, the State Council issued Circular Guo Ban Fa [2017] No. 80 ("Circular 80"), setting out several preferential measures intended to support enhanced innovation in China, through expanded access to financing, and lessened visa and administrative burdens. Most of the changes have effect nationwide, though a few are initially being piloted in 8 zones, with nationwide expansion to come later. The 8 zones are Beijing-Tianjin-Hebei, Shanghai, Guangdong (Pearl River Delta), Anhui (Hefei, Wuhu and Bengbu), Sichuan (Chengdu, Deyang and Mianyang), Hubei (Wuhan), Shaanxi (Xi'an), and Shenyang (Liaoning).

Technological-finance innovation	<ul style="list-style-type: none"> • Provide one-stop shop investment and financing information services to small and medium enterprises (SMEs). • Financial institutions and local governments may provide guarantee and insurance services for loans, taken out by SMEs, where patent rights are pledged as security.
Environment for innovation and entrepreneurship	<ul style="list-style-type: none"> • A one-stop shop service will facilitate quick administrative approvals, patent ownership confirmation and patent rights protection. • State tax bureau (STB) and local tax bureau (LTB) will jointly set up physical tax service halls, in which both STB and LTB matters can be dealt with.
Migration program	<ul style="list-style-type: none"> • Enterprising foreign students are encouraged to work or start up a business in China. Qualified foreign students will be better facilitated to apply for work permits and residence permits. • Foreign nationals may apply for permanent residence where their salary, tax payments, working years meet certain criteria (solely applies in designated 8 areas).

This follows on from State Council Circular Guo Ban Fa [2016] No. 35, issued on 12 May 2016, and State Council Circular Guo Ban Fa [2017] No. 54, issued on 15 June 2017, which established 28 and 92 (respectively) entrepreneurship and innovation demonstration bases in various city districts and special economic zones, as well as within certain universities, scientific research institutions and enterprises [See KPMG [China Tax Weekly Update \(Issue 19, May 2016\)](#), [\(Issue 25, June 2017\)](#) for details].

Reference: GAC
Announcement [2017] No. 45
Issuance date: 20 September
2017
Effective date: 21 September
2017

Relevant industries: Import
and export industries
Relevant companies:
Enterprises registered with
Customs
Relevant taxes: Customs
duty / Import VAT / Import
Consumption Tax

Potential impacts on
businesses:

- Compliance costs
reduced

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Consolidated customs duty collection extended

In 2015, the General Administration of Customs (GAC) issued [GAC Announcement \[2015\] No. 33](#) ("Announcement 33") to roll out nationwide a new consolidated customs duty collection approach. However, this just applied to certain import and export enterprises which fulfilled specific, limiting conditions. In order to bring this further, and extend the consolidated customs duty collection approach to all enterprises registered with customs offices, the AC issued Announcement [2017] No. 45 ("Announcement 45") on 20 September 2017. This measure, effective from 21 September 2017, replaces the earlier 2015-issued Announcement 33.

Consolidated customs duty filing allows clearance of goods through Chinese ports in advance of tax settlement, with taxes later settled on a consolidated basis for the imports and exports of an entire period. The relevant enterprise must provide a guarantee by way of deposit or a letter of indemnity. The scheme improves clearance times and lessens cash flow pressure for businesses.

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Relevant industries:
Cross-border B2C e-
commerce
Relevant companies:
Enterprises engaged in
cross-border B2C e-
commerce
Relevant taxes: Import and
Export Customs Duty /
Import VAT / Import
Consumption Tax

Potential impacts on
businesses:

- Compliance costs
reduced

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Cross-border B2C e-commerce supervision rules delayed

In 2016 the Ministry of Finance (MOF), SAT and GAC jointly issued Cai Guan Shui [2016] No. 18 ("Circular 18") setting out a new import tax policy for cross-border B2C e-commerce (see KPMG *China Tax Weekly Update* [Issue 12](#), [Issue 14](#) and [Issue 20](#)). As part of this, the MOF and other ten other authorities jointly issued two lists of retail goods permitted for import in cross-border e-commerce transactions. It was also regulated that products purchased online, and held in bonded zones in anticipation of sale, would be subject to China Inspection and Quarantine (CIQ) clearance procedures and notification when entering bonded zones from overseas – the relevant products were also set out on the lists. It should be noted that certain products such as cosmetics, infant formula milk powder, healthcare food etc., are subject to initial import licensing approval, registration or filing requirements.

Later in 2016, the State Council approved a delay to the implementation of the list system. This was a response to the great complexity created by the limited number of products on the initial lists. A one-year transition period was provided for with the following conditions:

- The CIQ Clearance notices for bonded products purchased online and entering the bonded zones in 10 pilot cities, in the period up to 11 May 2017, would not be subject to CIQ verification procedures. The 10 pilot cities are Tianjin, Shanghai, Hangzhou, Ningbo, Zhengzhou, Guangzhou, Shenzhen, Chongqing, Fuzhou and Pingtan.
- The initial import licensing approval/registration/filing requirements for cosmetics, infant formula milk powder, medical devices, special food (incl. healthcare food, formula food) were also suspended.
- The initial import licensing approval/registration/filing requirements for these products were also suspended for the direct purchase model in all regions.
- However, products imported under cross-border B2C e-commerce transactions covered by the lists were still subject to the Circular 18 tax policies

Recently, the State Council, in an executive meeting on 20 September 2017, further extended the transition period to the end of 2018.

At this meeting the State Council also decided to:

- Extend the successful roll out of cross-border e-commerce pilot zones to more cities across the country. Cities selected for pilot zones are those with good infrastructure and strong trade and e-commerce development potential. In total, since March 2015, the State Council has approved the set up of 12 cross-border e-commerce pilot zones in Tianjin, Shanghai, Chongqing, Hefei, Zhengzhou, Guangzhou, Chengdu, Dalian, Ningbo, Qingdao, Shenzhen and Suzhou.

The objectives of the State Council in establishing such zones is to:

- Leverage the zones to share nationwide the business experience of established online and offline cross-border e-commerce platforms. Share, in particular, best practices developed in information sharing, financial services, intelligent logistics and risk control.
- Draw on the experience with initial pilot zones to identify other cities with growth potential as new pilot zones.
- Tie the zones into initiatives to improve foreign trade infrastructure with the establishment of warehouses and strengthened logistics networks in major countries along the Belt and Road.
- Improve the connectivity of online service platforms in the pilot zones to ensure better information exchange, and facilitate supervision and law enforcement.

* Read the KPMG China Tax Alerts on the Circular 18 import tax policies for cross-border e-commerce:

- [*China Tax Alert: China's New Import Tax Policies for Cross-border E-commerce worth the attention of the whole industry \(Issue 14, March 2016\)*](#)
- [*China Tax Alert: The Chinese Government Introduced New Policies to Regulate Cross-Border E-Commerce Retail Import Business and the Imported Articles \(Issue 15, April 2016\)*](#)



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Relevant industries: All
 Relevant companies: Non-resident individuals and enterprises
 Relevant taxes: IIT / CIT

Potential impacts on businesses:

- Risks of being challenged due to cross-border tax avoidance arrangement increased
- Risks of being challenged due to non-compliance issues increased

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First CRS exchanges commence between 49 jurisdictions

The OECD Common Reporting Standard (CRS) is the global standard for the automatic exchange of information (AEOI). 102 jurisdictions have publicly committed to instruct domestic financial institutions to collect non-resident taxpayer account information and engage in international exchanges. Approximately half (49) of the committed jurisdictions commence exchanges in September 2017, and the other half (53) in September 2018.

According to a posting to the OECD website on 14 September 2017, the first 49 countries have now launched their initial exchanges. The OECD observes that these countries mainly utilize the CRS Multilateral Competent Authority Agreement (MCAA), which has been signed by 97 jurisdictions, as the legal basis for the exchanges. Countries are required to 'activate' the bilateral exchange relationships, made possible through the CRS MCAA, through notifications to the OECD, or they may enter into separate bilateral arrangements outside the CRS MCAA. The OECD observe that, for the 'first wave' countries, the network of bilateral exchange relationships now covers over 99% of the total number of possible exchange relationships for those countries, with over 2000 active bilateral relationships.

In addition, the OECD note that for the 'second wave' countries commencing exchanges in 2018, 20 of the 53 committed jurisdictions already have the required legal arrangements in place. Further progress is set to be made by the outstanding countries in the rest of 2017.

* China is set to commence CRS exchanges in the 'second wave' in September 2018. To facilitate this, in May 2017, China's SAT along with MOF, Peoples' Bank of China (PBOC), China Banking Regulatory Commission (CBRC), China Insurance Regulatory Commission (CIRC) and China Securities Regulatory Commission (CSRC), issued "Measures on the Due Diligence of Non-resident Financial Account Information in Tax Matters" (the "Measures"), and financial institutions in China are currently putting the systems and protocols in place to enable collection and reporting of the requisite non-resident account holder information. China has signed the CRS MCAA and has activated 47 bilateral exchange relationships through it, with more to follow. Most major economies have committed to CRS, with the exception of the US. The US Foreign Account Tax Compliance Act (FATCA), in combination with a series of intergovernmental agreements (IGAs), aims to facilitate tax information exchange in the same manner as CRS. While there is a FATCA IGA 'understanding' between China and the US, no implementation regulations have yet been issued by China and are still awaited.

Please refer to the following publications for further details:

- ❑ [China Tax Alert: Measures on the Due Diligence of Non-resident Financial Account Information in Tax Matters \(AEOI Standard / CRS in China\) \(Issue 16, May 2017\)](#)
- ❑ [China Tax Alert: Public Consultation for the Draft Measures on the Due Diligence of Non-resident Financial Account Information in Tax Matters \(Issue 32, November 2016\)](#)

** For more information about CRS, please see the following KPMG Publication:

- ❑ [China Tax Weekly Update \(Issue 19, May 2017\)](#)

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