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Reference: SAT
Announcement [2017] No. 34
Issuance date: 22 September
2017
Effective date: N/A

Relevant industries: All
Relevant companies:
Enterprises Owned by the
Whole People
Relevant taxes: CIT

Potential impacts on
businesses:
• Operational costs
reduced

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full content of the circular.

Restructuring tax relief for state-owned enterprises

On 18 July 2017, the State Council issued Guo Ban Fa [2017] No. 69. This set out the Implementation Plan ("the Plan") on Corporate Governance Reform for Central State-Owned Enterprises (SOEs), many of which are specially registered under the 'Laws on Industrial Enterprises Owned by the Whole People'. The Plan aimed to more clearly separate the operational management of the targeted SOEs from government administration. This is to be achieved by restructuring them into limited liability companies (still under state ownership) to increase business efficiency. The change also facilitates the later involvement of private investment in the enterprises, as part of the government's broader scheme of moving SOEs to a mixed-ownership model. According to the Plan, the reform is to be completed before the end of 2017, and all the central SOEs (excluding financial and cultural sector (e.g. state media) enterprises) are required to be restructured into limited companies or corporations (See KPMG [China Tax Weekly Update \(Issue 30, August 2017\)](#)).

To support this reform from the tax side, the State Administration of Taxation (SAT) on 22 September 2017 issued the *Notice on Corporate Income Tax (CIT) Treatment Concerning Enterprises Owned by the Whole People Restructured into Limited Companies* (SAT Announcement [2017] No. 34, "Announcement 34"). This clarifies the CIT deferral treatment for restructured SOEs.

Announcement 34 applies to the 2017 annual CIT filing and subsequent years.

Announcement 34 clarifies the following CIT treatment:

- Otherwise taxable gains arising from asset revaluations conducted in the course of SOE restructuring may enjoy CIT deferral treatment. This means that (i) revaluation gains would be excluded from taxable income; (ii) the relevant asset tax basis for future transactions shall continue as its original tax basis; and (iii) depreciation/amortization on the revalued asset is not deductible for CIT purposes [this means that the revaluation element (i.e. the increase in the value of the asset) is not tax depreciable, but the original basis of the assets is still depreciable].
- Qualifying restructurings must meet all of the following criteria:
 - Relief solely applies to restructuring of wholly state-owned enterprises (or their subsidiaries), originally registered as "owned by the whole people" into limited liability companies;
 - The identity of the shareholders and the ownership of the enterprise property remain unchanged after the restructuring, i.e., still 100% owned by the state; and
 - Essentially this is just a change to the legal form of the enterprises.

Restructurings other than the above may not obtain the CIT deferral treatment.

Reference: Shui Zong Fa [2017] No. 106
 Issuance date: 18 September 2017
 Effective date: N/A

Relevant industries: All
 Relevant companies: All
 Relevant taxes: CIT

Potential impacts on businesses:
 • Operational costs reduced

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Further R&D bonus deduction rules

On 18 September 2017, the State Administration of Taxation (SAT) and the Ministry of Science and Technology (MOST) jointly issued the *Notice on Enhancing the Implementation of the R&D Bonus Deduction Policy* (Shui Zong Fa [2017] No. 106, "Circular 106"). This aims to strengthen the implementation of the research and development (R&D) expense bonus deduction policy.

Prior to this, the Ministry of Finance (MOF), SAT and MOST issued Guo Ke Fa Zheng [2017] No. 211 (Circular 211) in July 2017, clarifying how to deal with tax authority objections to R&D bonus deduction claims (See KPMG [China Tax Weekly Update \(Issue 33, August 2017\)](#) for more details). Circular 106 is built upon Circular 211, setting out the following requirements for tax authorities and MOST at all levels:

- Sets out unified rules and procedures which local tax authorities and local MOST offices are to follow in identifying R&D projects, whose qualification for the bonus deduction might be called into question. The procedures cover both disputed projects detected at the time at which enterprises initially claim the bonus deduction and those detected in the course of audits.
- Improves the procedures in relation to contract registration for entrusted/cooperative R&D projects (i.e. outsourced R&D project work). A "substance over form" principle is applied so that if the outsourcing arrangements meet the central criteria for qualified outsourcing, then it does not matter if the form of the contract differs from the contract templates publicized by local tax bureaus. In recent times issues had been encountered with local tax authorities rejecting bonus deduction claims for outsourcing expenses, on the basis that the contracts did not conform to the local templates, and this clarification seeks to resolve this issue.

* For more information about the R&D "bonus deduction" policy, you may access the following KPMG publications:

- ❑ [China Tax Alert: Notice of the State Administration of Taxation on Further Implementation of the R&D Expenses Super Deduction Policy \(Issue 6, February 2017\)](#)
- ❑ [China Tax Alert: 150% Super Deduction Regulation Update \(Issue 3, January 2016\)](#)
- ❑ [China Tax Alert: R&D Super Deduction Regulation Update \(Issue 31, November 2015\)](#)

Reference: N/A
 Issuance date: 27 September 2017
 Effective date: N/A

Relevant industries: All
 Relevant companies: Small enterprises
 Relevant taxes: VAT / Stamp Duty

Potential impacts on businesses:
 • Operational costs reduced

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

Reference: Shui Zong Fa [2017] No. 102
 Issuance date: 14 September 2017
 Effective date: N/A

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

Potential impacts on businesses:
 • Operational costs reduced

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Tax incentives for small enterprises

An executive meeting of the State Council on 27 September 2017 set out several measures to further boost development of small and micro enterprises (SMEs). These measures include:

- An earlier circular, Cai Shui [2017] No. 44, issued in June 2017, had announced that a VAT exemption incentive would be granted to financial institutions for their interest income from small loans to farming households. This incentive was to apply to loans for the period 1 December 2017 to 31 December 2019 (see KPMG [China Tax Weekly Update \(Issue 24, June 2017\)](#) for more details). Going further than this, the government announced at the September meeting that the VAT exemption will be extended to interest income from small loans to a wider range of SMEs and sole traders, (also for the 2017-2019 period). The size of the loans eligible for the VAT exemption is also lifted to RMB1 million per business from RMB100,000 per business.
- Under the current rules, a stamp duty exemption is granted to loan contracts signed between financial institutions and SMEs from 1 November 2014 to 31 December 2017. Now, this tax incentive will be extended to the end of 2020.
- Under the current rules, VAT exemption is granted to SMEs whose monthly sales revenue does not exceed RMB30,000 (RMB90,000 for quarterly filings) until 31 December 2017. Now, this tax incentive will be extended to the end of 2020.

SAT measure to ease doing business across the provinces

As highlighted in KPMG *China Tax Weekly Update (Issue 38, September 2017)*, the SAT on 14 September 2017 issued Shui Zong Fa [2017] No.101 ("Circular 101"), setting out 30 measures to further simplify tax administration.

Building on this, the SAT recently issued Shui Zong Fa [2017] No.102 ("Circular 102"). This facilitates cross-province taxpayer operations by allowing certain tax matters to be handled with tax authorities, other than the taxpayer's in-charge tax authority, in other provinces. This does not, however, affect tax revenue attribution, and the taxpayer's in-charge tax authority remains unchanged. An application must be made for this treatment, and matters covered include:

- Reporting tax-related information: Reports to tax authorities on deposit accounts, financial and accounting system information, and recordals concerning accounting software being used by the enterprise.
- Tax filing and payment: These include reports on disposal of immovable property or large-value assets by defaulting taxpayers, status reports on taxpayer mergers and spin-offs, status reports on contracting and leasing operations, and withholding reports on supplementary pensions.
- Recordal for preferential tax treatment: These include recordals for tax incentives for VAT, Consumption Tax, Corporate Income Tax (excluding recordals that must be handled by the taxpayer's head office), Stamp Duty, Vehicle and Vessel Tax, Urban Maintenance and Construction Tax as well as Education Surcharges.
- Certificates. These include tax payment certificates and individual income tax (IIT) payment certificates.

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