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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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China's tax administration modernisation efforts

Mr. Wang Jun, Director of the State Administration of Taxation (SAT), recently made a speech on "Adopting a Linked and Integrated Approach to Tax Administration Modernisation". The speech was made at the 11th meeting of Forum of Tax Administration (FTA), which was held from 27 September to 29 September 2017 in Norway. Mr. Wang, highlighted China's efforts to modernise tax administration in recent years, with three categories identified.

Tax collection /administration	• Continued simplification of tax administration, including: ➢ Administrative pre-approvals has been changed to simple registration requirements, coupled with more targeted and effective follow up audit and review. ➢ Tax matters can be handled with a greater number of tax authorities, where convenient for the taxpayer. In the past, such matters could be handled solely/largely with the local tax authorities where the taxpayer was established/located. ➢ Taxpayers are subject to differentiated scrutiny and case management based on their assessed risk levels. In the past, there was no such sophisticated differentiation. ➢ Tax administration now relies to a greater extent on tax data, rather than just tax authority experience. • Integrated tax administration relying on (i) verified real name taxpayer information, (ii) taxpayer grading, classification, credit and risk rating. • Advancing "information technology-based taxation" by setting up online taxation service halls and e-tax bureau, administered under unified standards. • Enhance cooperation between state tax bureaus (STB) and local tax bureaus (LTB). Taxpayers can now handle either STB or LTB matters with one tax bureau. • Risk management of 1062 large enterprises and their subsidiaries now directly handled by SAT (as opposed to by smaller local tax authorities where the enterprises are registered). Enterprises covered are those whose tax paid exceeds RMB300 million in a year. (In September 2017, the SAT issued measures to simplify tax administration. Refer to KPMG *China Tax Weekly Update (Issue 38, September 2017)* for more details).

Tax collection/ administration (cont'd)	• In 2017, China introduced a series of VAT, CIT and IIT tax relief measures. These include: ➢ VAT rates simplification, i.e., the VAT brackets will be reduced from four to three from 1 July 2017 onwards, and the 13% rate will be abolished. ➢ Enhanced deductions for R&D expenses incurred by "science and technology-related small and medium enterprises", i.e., 75% of the R&D expenses may be taken as a super deduction for CIT purposes; ➢ A new incentive treatment for venture capital (VC) enterprises and individual 'business angel' investors; ➢ Premiums paid to eligible commercial health insurance providers are allowed to be deducted up to RMB2,400 per person per year (RMB200/per month) for IIT purposes. ➢ Continuance of some existing tax incentives; ➢ eligible small enterprises whose taxable income falls under RMB500,000 (previously RMB300,000), may pay CIT on 50% of their whole income at a rate of 20% (i.e., effective rate is 10%). (See KPMG *China Tax Weekly Update (Issue 18, May 2017)* and *(Issue 24, June 2017)* for more details).
Linking tax administration with overall national governance	• Promote information sharing among government agencies. SAT has set up a tax-related information sharing mechanism with 14 government agencies, including the National Development and Reform Commission (NDRC), while intensifying efforts on information sharing with banks and customs offices. As a next step, the government information systems of each central government agency, including the tax authorities, will all be connected to the national data sharing exchange platform. • Improve the evaluation system for tax credit rating of taxpayers. Differentiated tax services will be provided to taxpayers in accordance with their tax credit rating. For example, taxpayers whose tax credit ratings are lower than class A/B/C are still required to scan VAT invoices for verification online, whereas higher rated taxpayers are now not so required. The SAT has signed a cooperation memorandum with 29 other Chinese regulatory authorities to grant more incentives to taxpayers with class-A tax credit ratings. It has also signed a cooperation memorandum with 34 other Chinese regulatory authorities, in relation to applying joint sanctions to blacklisted business operations and personnel. Where business operations or personnel are designated with class-D tax credit ratings, they will be barred from leaving China and banned from luxury consumption. • Roll out a new VAT invoice management system under which all taxpayers' tax-related transaction information, such as cash flow and product prices can be recorded and monitored by the tax authorities.

Participation in international tax reform	• Implement G20 tax reforms, especially Base Erosion and Profit Shifting (BEPS) changes. These include China's signing of the global Multilateral Instrument and implementation of new bank reporting requirements to support the new global rules on exchange of tax information between countries. • China has entered into bilateral/multilateral tax cooperation and collaboration arrangements with 25 international organisations and regional tax organisations, such as the United Nations, International Monetary Fund (IMF), OECD and etc. China has also set up bilateral tax cooperation mechanism with 116 jurisdictions and entered into tax treaties or protocols with 54 jurisdictions along the "Belt and Road".

* Please refer to KPMG *China Tax Weekly Update (Issue 18, May 2016)* to know about the 10th FTA meeting which was held from 11 to 13 May 2016 in Beijing .

Reference: SAT Announcement [2017] No. 35
Issuance date: 13 September 2017
Effective date: 1 November 2017

Relevant industries: Foreign trade
Relevant companies: Foreign trade integrated services enterprises
Relevant taxes: VAT

Potential impacts on businesses:
- Compliance risks due to regulatory uncertainties reduced

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Simplified export tax refund/exemption procedures

On 13 September 2017, SAT issued Announcement [2017] No. 35 ("Announcement 35"). This clarifies the improved tax refund (exemption) administration for foreign trade integrated services enterprises (FTISEs). FTISEs refer to foreign trade enterprises which provide export-related services (including logistics, customs declaration, credit guarantee, financing, foreign currency receipts, tax refund etc.) to small and medium sized Chinese manufacturing enterprises. Announcement 35 is effective from 1 November 2017.

Currently, SAT Announcement [2014] No. 13 ("Announcement 13") governs the manner in which FTISEs help exporting enterprises obtain tax refunds (exemption) on exportation (typically for VAT). The FTISE purchases the export goods from the manufacturer, and then makes the refund/exemption declaration itself as part of the export process.

The new Announcement 35, which replaces Announcement 13, provides that FTISE may obtain a tax refund (exemption) on behalf of a domestic manufacturing enterprise without needing to purchase the exported goods first. The tax refund (exemption) declaration is handled by the in-charge tax authority of the FTISE and the refund is paid to the bank account of the manufacturer.

Reference: Shui Zong Fa [2017] No. 99
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Relevant industries: Construction industry
Relevant companies: Construction enterprises
Relevant taxes: VAT

Potential impacts on businesses:
- Compliance risks due to regulatory uncertainties reduced

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VAT management for construction industry

On 6 September 2017, the SAT, the Ministry of Housing and Urban-Rural Development (MOHURD) and MOF jointly issued Shui Zong Fa [2017] No. 99 ("Circular 99"), which sets out VAT guidelines for the construction sector. The latter transitioned from Business Tax (BT) to VAT (i.e., VAT reform) in May 2016. This aims to address construction sector VAT issues such as difficulties in obtaining invoices for claiming input VAT credit, applying the simplified VAT method, or prepayment of tax for cross-regional construction projects. Circular 99 sets out the following guidance, inter alia:

- Local tax authorities shall increase the number of designated agencies mandated to issue special VAT invoices on behalf of taxpayers in relation to building materials markets and large-scale project sites. These designated agencies will also facilitate the issuance of special VAT invoices for sand and stone sales enterprises, enterprises that temporarily operate certain businesses, and building materials retailers, and constantly improve the supply of special VAT invoices to construction enterprises for purchasing building materials.
- Local tax authorities must ensure the proper application of tax reduction and simplified VAT method tax policies for general contractors. These were set out in Cai Shui [2017] No. 58 (See KPMG *China Tax Weekly Update (Issue 28, July 2017)* for details).
- Local tax authorities may not force out-of-district construction enterprises to set up branches or subsidiaries in the location where the tax authority is located (they will still, however, need to prepay VAT to the tax authority where the construction service takes place).

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

- ❑ *China Tax Alert: China's new VAT rates & rules – Real Estate & Construction industry impacts (Issue 12, March 2016)*

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