



# China Tax Weekly Update

ISSUE 41 | October 2017

Reference: N/A  
Issuance date: 18 October 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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## New China Economic Development Strategy

On 18 October 2017, the 19th National Congress of the Communist Party of China (CPC) was held in Beijing. President Xi Jinping made a keynote speech to the CPC Congress noting how China's economy is transitioning from a phase of rapid growth to a stage of high-quality development. In order to transform China's growth model and foster new drivers of growth, the government is targeting a number of economic development priorities.

### Furthering supply-side structural reform

- Accelerate development of advanced manufacturing industries and foster new growth drivers.
- Support transformation of traditional industries. Move China's processing trade further up global value chains.
- Construction of infrastructure networks, such as water conservation, railways, highways, waterways, aviation, pipelines, power grids, information and logistics.
- Prioritise supply-side reform, focus on reducing over-capacity and excessive leverage in the economy.
- Protect entrepreneurship, and encourage more innovation and start up businesses.

### Making China a country of innovators

- Be at the cutting-edge of science and technology, strengthen fundamental research, and launch major national science and technology projects.
- Support innovation by small and medium-sized enterprises and encourage applied sciences.
- Support the creation, protection, and application of intellectual property.

<b>Coordinated regional development strategy</b>	<ul style="list-style-type: none"> <li>• Speed up the development of areas with large ethnic minority populations, border areas, and poorer areas.</li> <li>• Drive the development of the western regions, revitalize the old industrial bases in northeast regions and develop central and eastern regions.</li> <li>• Development of Beijing-Tianjin-Hebei, Xiong'an New Area and Yangtze River Economic Zone.</li> </ul>
<b>Improve the socialist market economy</b>	<ul style="list-style-type: none"> <li>• Improve management of state-owned assets.</li> <li>• Deepen the reform of state-owned enterprises and move to a 'mixed-ownership' model.</li> <li>• Roll out negative list approach for market access.</li> <li>• Support the development of private companies.</li> <li>• Deepen business system reform.</li> <li>• Deepen tax system reform, including local tax systems.</li> <li>• Deepen investment and financing mechanism reform including direct financing (i.e., financing by way of financial instruments, such as bonds and shares).</li> </ul>
<b>Open up on all fronts</b>	<ul style="list-style-type: none"> <li>• Maintain Belt and Road Initiative as China's core external economic strategy, and deeply integrate the economies of more than sixty countries across Eurasia.</li> <li>• Expand foreign trade through: <ul style="list-style-type: none"> <li>➢ High-level policies to facilitate trade and investment;</li> <li>➢ Roll out "pre-establishment national treatment plus negative list" approach across the country;</li> <li>➢ Relax market access and open up service sector;</li> <li>➢ Protect legal interests of foreign investors; and</li> <li>➢ Treat all enterprises registered in China equally.</li> </ul> </li> <li>• Grant more autonomy to pilot free trade zones to conduct reform</li> <li>• Explore the construction of free trade ports.</li> <li>• Promote outbound investments and international cooperation on production capacity.</li> </ul>

Reference: Hu Fu Fa [2017]  
No. 79

Issuance date: 10 October  
2017

Effective date: N/A

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

Potential impacts on  
businesses:

- Operational costs reduced

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## Shanghai to support foreign- R&D centres

On 10 October 2017, Shanghai municipal people's government issued Hu Fu Fa [2017] No. 79 ("Circular 79"), setting out 16 measures to further support foreign-invested research and development (R&D) centres. R&D centres are to be supported to make a greater contribution to Shanghai as a scientific and technological innovation centre. Specially, the measures:

- Support foreign investors to set up R&D centres (as independent legal entities) in Shanghai, and upgrade these to global R&D centres. For an eligible R&D centre, a start up subsidy of RMB5 million and a three-year housing rent subsidy will be given.
- Support multinational enterprises (MNEs) to set up "open innovation platforms". These are to allow the innovation resources of other MNEs, small and medium-size enterprises and innovation teams to be effectively shared through the platform (three-year site funding at a certain proportion of the expenditure incurred will be granted);
- Simplify administrative procedures for importation of samples for R&D purposes, such as prioritising their inspection and declaration, lifting R&D centres' credit rating, etc.
- Encourage foreign-invested R&D centres to embark on major R&D projects, and support foreign investors to set up national-level technology centres to engage in major R&D projects in strategic emerging industries (funding support will be provided);
- Encourage foreign-invested R&D centre research findings to be transferred / transformed within Shanghai (support grants can be obtained in relation to land use rights and skilled personnel).

As of August 2017, foreign investors have set up 416 R&D centres in Shanghai, including 40 global R&D centres and 17 Asia-Pacific R&D centres.

This follows on from State Council Circular Guo Fa [2016] No. 32, which set out a plan on accelerating Shanghai's transformation into a world-class technical innovation centre. The plan put forward reform measures to harness spillover effects from foreign R&D institutions and enhance international cooperation on technology and innovation in Shanghai (See KPMG [China Tax Weekly Update \(Issue 15, April 2016\)](#) for details).

Reference: N/A  
 Issuance date: 29 September 2017  
 Effective date: N/A

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

Potential impacts on businesses:

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

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## Further OECD guidance on country-by-country reporting

On 29 September 2017, the OECD released two sets of Country-by-Country (CbC) Reporting handbooks, namely the *Handbook on Effective Implementation* ("Implementation Handbook") and the *Handbook on Effective Tax Risk Assessment* ("Risk Assessment Handbook").

2018 will be the first time that tax authorities around the world will receive information on large MNE groups, with operations in their country (by revenue, profits, tax and other attributes by tax jurisdiction), by way of CbC reporting. This information has never previously been available to tax authorities and represents a great opportunity for tax authorities to understand the structure of a group's business in a way that has not been possible before. With nine months to go until the first CbC Reports are exchanged, over 1,000 exchange relationships between jurisdictions have already been created. These two handbooks will provide valuable support to countries introducing CbC reporting and using the information they receive.

The [Implementation Handbook](#) is a practical guide of key elements that countries need to keep in mind when introducing CbC Reporting. This includes technical issues related to the filing, exchange and use of CbC Reports, as well as practical matters that tax authorities will need to deal with.

Following the implementation of CbC Reporting, a tax authority will then need to start using the information they receive, either from a group directly or from a foreign tax authority. The [Risk Assessment Handbook](#) explores how this can be done, taking into account the different approaches to tax risk assessment applied in different countries, the types of tax risk indicator that may be identified using information contained in CbC Reports, and the potential key areas of challenge by tax authorities.

\* In July 2016, China's SAT Announcement [2016] No. 42 provides China's CBC reporting administrative guidance. You may refer to the following KPMG China Tax Alert for more details:

- [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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