

# China Tax Weekly Update

ISSUE 47 | December 2017

Reference: Cai Shui [2017]  
No. 80  
Issuance date: 24 November  
2017  
Effective date: 1 December  
2017

Relevant industries: All  
Relevant companies: All  
Relevant taxes: Water  
resources tax

Potential impacts on  
businesses:

- Compliance costs due to  
regulatory uncertainties  
reduced

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

## Water Resource Tax pilot reform expanded

Since 1 July 2016, a Water Resource Tax pilot program was initiated in Hebei province. This replaced the prior water resource fees with a tax levied on a volume basis. The tax covers both surface water and underground water (see KPMG [China Tax Alert \(Issue 18, June 2016\)](#) for more details).

On 24 November 2017, the Ministry of Finance (MOF), State Administration of Taxation (SAT) and Ministry of Water Resources (MWR) jointly issued Cai Shui [2017] No. 80 ("Circular 80"). Effective from 1 December 2017, the pilot reform will be extended to 9 additional provinces and municipalities, including Beijing, Tianjin, Shanxi, Inner Mongolia, Shandong, Henan, Sichuan, Shaanxi and Ningxia.

Circular 80 clarifies the following:

<b>Taxpayers</b>	<ul style="list-style-type: none"><li>• Enterprises or individuals who extract surface water (from rivers, lakes, reservoirs) and underground water for usage, shall be subject to Water Resource Tax (WRT).</li></ul>
<b>Tax rates</b>	<ul style="list-style-type: none"><li>• Effective from 1 December 2017, water resource fees will be converted to WRT. The WRT rates will continue to follow the tax rates set for the water resource fees as originally imposed in the 9 provinces/municipalities. Circular 80 sets minimum average WRT rates for each pilot area.</li><li>• Different tax rates shall be applied for extraction/use of water from various locations or for various purposes. For example, extraction of underground water from over-extracted areas will be levied at rates ranging from 2 to 5 times the minimum average WRT rate (e.g. the minimum average WRT rate for Beijing is RMB4/m<sup>3</sup>). For extraction/use of water for special industries, such as car washes, bath centres, golf courses, ski resorts, the highest WRT rate will be applied (i.e., 5 times the minimum average WRT rate).</li></ul>
<b>Tax incentive</b>	<ul style="list-style-type: none"><li>• Tax exemption will be granted to extraction/use of water for agriculture production, water recycling, pumped-storage power generation, etc.,</li></ul>
<b>Tax collection</b>	<ul style="list-style-type: none"><li>• A tax-related information sharing platform and a collaboration mechanism will be set up between local tax authority and administrative authority for water resources. Information on extraction/use of water will be shared between these two government agencies at regular intervals.</li></ul>

\* With regard to the Resource Tax reform, please refer to KPMG [China Tax Weekly Update \(Issue 46, November 2017\)](#) for more details.

Reference: SAT  
Announcement [2017] No. 41  
Issuance date: 29 November  
2017  
Effective date: N/A

Relevant industries: All  
Relevant companies:  
Enterprises embark on  
overseas contracting projects  
Relevant taxes: CIT

Potential impacts on  
businesses:

- Compliance risks due to regulatory uncertainties reduced

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

## Overseas construction foreign tax credit administration

In a bid to encourage Chinese enterprises to embark on overseas contracting projects under the Belt and Road Initiative (BRI), on 29 November 2017, the SAT issued Announcement [2017] No. 41. This clarifies certain issues for claiming foreign tax credit (FTC) for overseas contracting projects. Announcement 41 applies to corporate income tax (CIT) filings from (and including) 2017 onwards.

In particular, Announcement 41 clarifies the following:

- Where a Chinese enterprise (general contractor) embarks on an overseas project (including but not limited to engineering construction, infrastructure construction) by way of a contract arrangement or a consortium, the subcontracting enterprise (or each party to the consortium) may claim the FTC based on the allocation of foreign tax paid. The subcontracting enterprise (or each party to the consortium) will be provided with a tax-paid allocation form issued by the general contractor or the leading party of the consortium for claiming FTC purposes.
- The general contractor or the leading party of the consortium must allocate the foreign tax-paid amount based on a reasonable ratio. Elements such as income and work undertaken by each party, should be taken into consideration.
- The general contractor or the leading party of the consortium is required to perform a recordal filing with the Chinese tax authorities when issuing the tax-paid allocation form. A copy of the tax-paid allocation form should also be submitted by the contracting enterprise (or each party of the consortium) to the local tax authority when claiming the FTC.
- The general contractor or the leading party of the consortium must separately account for each overseas contracting project.

Reference: N/A  
Issuance date: 30 November  
2017  
Effective date: N/A

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

Potential impacts on  
businesses:

- Operational costs reduced

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

## SAT to strengthen supervision of North China LTBs and STBs

A posting on the SAT's official website indicated that a special office was recently set up by SAT in Beijing to:

- Monitor and check whether state/local tax bureaus (STBs/LTBs) carry out the central government/State Council's decision
- Check whether STBs/LTBs' tax enforcement procedures comply with SAT guidance;
- Audit the finances of state/local tax bureaus (e.g. the STB and LTB staff and IT spending);
- Ensure appropriate use of cross-region audits for major tax cases.

The special office is solely responsible of state/local tax bureaus located in Beijing, Tianjin, Hebei, Shanxi and Inner Mongolia. It aims to reinforce the supervision of tax enforcement and further improve the business and tax environment for taxpayers.

Reference: N/A  
 Issuance date: 30 November 2017  
 Effective date: N/A

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

Potential impacts on businesses:

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

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

## Additional OECD guidance on Country-by-Country reporting

On 30 November, the OECD released [additional guidance](#) on the implementation of Country-by-Country (CbC) Reporting (BEPS Action 13). This is the sixth set of CBC guidance provided by the OECD [See KPMG [China Tax Weekly Update \(Issue 36, September 2017\)](#), [\(Issue 29, July 2017\)](#), [\(Issue 16, April 2017\)](#), [\(Issue 48, December 2016\)](#) and [\(Issue 41, November 2016\)](#) for the previous five rounds of CBC guidance issued by the OECD].

The additional guidance addresses a number of specific issues:

- how to report amounts taken from financial statements prepared using fair value accounting;
- how to treat a negative figure for accumulated earnings in Table 1;
- how to treat mergers/acquisitions/de-mergers;
- how to treat short accounting periods; and
- the definition of total consolidated group revenue.

\* 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 \(Issue 23, July 2016\)](#)

Reference: Hui Zong Fa [2017] No. 59  
 Issuance date: 29 November 2017  
 Effective date: N/A

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

Potential impacts on businesses:

- Operational costs reduced

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

## Forex transaction simplification for foreign nationals holding China permanent resident ID

Since 16 June 2017, the Ministry of Public Security (MPS) commenced issuance of new "Foreign Permanent Resident ID Cards" (PR ID cards) to foreign nationals. This follows the foreign nationals permanent resident system reform. The MPS will stop issuing the existing "Foreigner's Permanent Resident Card".

On 29 November 2019, the State Administration of Foreign Exchange (SAFE) issued Hui Zong Fa [2017] No. 59, which clarifies that PR ID cards can be used for forex remittance settlement or forex purchase purposes. This means that a foreigner can more readily convert RMB to (say) USD on remittance out of China or purchase USD (with RMB) that they leave in China. A foreigner who holds a PR ID card, may deal with banks directly to settle forex remittance transactions, or purchase foreign currencies, where the total transaction value is within the annual quota (i.e., US\$50,000). No SAFE approval is required.

\* To attract highly skilled overseas workers, China has introduced a string of measures on the administration of exit and entry of foreigners from China. On March 13 2017, the Ministry of Human Resources and Social Security promulgated Order No.32, which streamlines the requirements for Chinese employers to obtain work visas (Z-visas) for foreign employees (see KPMG [China Tax Alert Issue 12, May 2017](#) for more details).

For any enquiries, please send to our public mailbox: [taxenquiry@kpmg.com](mailto:taxenquiry@kpmg.com) or contact our partners/directors in each China/HK offices.

## Khoonming Ho

Head of Tax,  
KPMG Asia Pacific  
Tel. +86 (10) 8508 7082  
[khoonming.ho@kpmg.com](mailto:khoonming.ho@kpmg.com)

## Lewis Lu

Head of Tax,  
KPMG China  
Tel. +86 (21) 2212 3421  
[lewis.lu@kpmg.com](mailto:lewis.lu@kpmg.com)

## Beijing/Shenyang/Qingdao Vincent Pang

Tel. +86 (532) 8907 1728  
[vincent.pang@kpmg.com](mailto:vincent.pang@kpmg.com)

## Tianjin

**Eric Zhou**  
Tel. +86 (10) 8508 7610  
[ec.zhou@kpmg.com](mailto:ec.zhou@kpmg.com)

## Shanghai/Nanjing/Chengdu

**Anthony Chau**  
Tel. +86 (21) 2212 3206  
[anthony.chau@kpmg.com](mailto:anthony.chau@kpmg.com)

## Hangzhou

**John Wang**  
Tel. +86 (571) 2803 8088  
[john.wang@kpmg.com](mailto:john.wang@kpmg.com)

## Guangzhou

**Lilly Li**  
Tel. +86 (20) 3813 8999  
[lilly.li@kpmg.com](mailto:lilly.li@kpmg.com)

## Fuzhou/Xiamen

**Maria Mei**  
Tel. +86 (592) 2150 807  
[maria.mei@kpmg.com](mailto:maria.mei@kpmg.com)

## Shenzhen

**Eileen Sun**  
Tel. +86 (755) 2547 1188  
[eileen.gh.sun@kpmg.com](mailto:eileen.gh.sun@kpmg.com)

## Hong Kong

**Karmen Yeung**  
Tel. +852 2143 8753  
[karmen.yeung@kpmg.com](mailto:karmen.yeung@kpmg.com)

## Northern China

### Vincent Pang

Head of Tax,  
Northern Region  
Tel. +86 (10) 8508 7516  
+86 (532) 8907 1728  
[vincent.pang@kpmg.com](mailto:vincent.pang@kpmg.com)

### Cheng Chi

Tel. +86 (10) 8508 7606  
[cheng.chi@kpmg.com](mailto:cheng.chi@kpmg.com)

### Conrad TURLEY

Tel. +86 (10) 8508 7513  
[conrad.turley@kpmg.com](mailto:conrad.turley@kpmg.com)

### Milano Fang

Tel. +86 (532) 8907 1724  
[milano.fang@kpmg.com](mailto:milano.fang@kpmg.com)

### Tony Feng

Tel. +86 (10) 8508 7531  
[tony.feng@kpmg.com](mailto:tony.feng@kpmg.com)

### Flora Fan

Tel. +86 (10) 8508 7611  
[flora.fan@kpmg.com](mailto:flora.fan@kpmg.com)

### John Gu

Tel. +86 (10) 8508 7095  
[john.gu@kpmg.com](mailto:john.gu@kpmg.com)

### Rachel Guan

Tel. +86 (10) 8508 7613  
[rachel.guan@kpmg.com](mailto:rachel.guan@kpmg.com)

### Helen Han

Tel. +86 (10) 8508 7627  
[h.han@kpmg.com](mailto:h.han@kpmg.com)

### Michael Wong

Tel. +86 (10) 8508 7085  
[michael.wong@kpmg.com](mailto:michael.wong@kpmg.com)

### Josephine Jiang

Tel. +86 (10) 8508 7511  
[josephine.jiang@kpmg.com](mailto:josephine.jiang@kpmg.com)

### Henry Kim

Tel. +86 (10) 8508 5000  
[henry.kim@kpmg.com](mailto:henry.kim@kpmg.com)

### David Ling

Tel. +86 (10) 8508 7083  
[david.ling@kpmg.com](mailto:david.ling@kpmg.com)

### Li Li

Tel. +86 (10) 8508 7537  
[li.li@kpmg.com](mailto:li.li@kpmg.com)

### Lisa Li

Tel. +86 (10) 8508 7638  
[lisa.h.li@kpmg.com](mailto:lisa.h.li@kpmg.com)

### Thomas Li

Tel. +86 (10) 8508 7574  
[thomas.li@kpmg.com](mailto:thomas.li@kpmg.com)

### Larry Li

Tel. +86 (10) 8508 7658  
[larry.y.li@kpmg.com](mailto:larry.y.li@kpmg.com)

### Lucia Liu

Tel. +86 (10) 8508 7570  
[lucia.j.liu@kpmg.com](mailto:lucia.j.liu@kpmg.com)

### Alan O'Connor

Tel. +86 (10) 8508 7521  
[alan.oconnor@kpmg.com](mailto:alan.oconnor@kpmg.com)

### Shirley Shen

Tel. +86 (10) 8508 7586  
[yinghua.shen@kpmg.com](mailto:yinghua.shen@kpmg.com)

### Joseph Tam

Tel. +86 (10) 8508 7605  
[laiyi.tam@kpmg.com](mailto:laiyi.tam@kpmg.com)

### Joyce Tan

Tel. +86 (10) 8508 7666  
[joyce.tan@kpmg.com](mailto:joyce.tan@kpmg.com)

### Cynthia Xie

Tel. +86 (10) 8508 7543  
[cynthia.py.xie@kpmg.com](mailto:cynthia.py.xie@kpmg.com)

### Christopher Xing

Tel. +86 (10) 8508 7072  
[christopher.xing@kpmg.com](mailto:christopher.xing@kpmg.com)

## Irene Yan

Tel. +86 (10) 8508 7508  
[irene.yan@kpmg.com](mailto:irene.yan@kpmg.com)

## Adams Yuan

Tel. +86 (10) 8508 7596  
[adams.yuan@kpmg.com](mailto:adams.yuan@kpmg.com)

## Jessie Zhang

Tel. +86 (10) 8508 7625  
[jessie.j.zhang@kpmg.com](mailto:jessie.j.zhang@kpmg.com)

## Sheila Zhang

Tel. +86 (10) 8508 7507  
[sheila.zhang@kpmg.com](mailto:sheila.zhang@kpmg.com)

## Tiansheng Zhang

Tel. +86 (10) 8508 7526  
[tiansheng.zhang@kpmg.com](mailto:tiansheng.zhang@kpmg.com)

## Tracy Zhang

Tel. +86 (10) 8508 7509  
[tracy.h.zhang@kpmg.com](mailto:tracy.h.zhang@kpmg.com)

## Eric Zhou

Tel. +86 (10) 8508 7610  
[ec.zhou@kpmg.com](mailto:ec.zhou@kpmg.com)

## Vivian Zhou

Tel. +86 (10) 8508 3360  
[v.zhou@kpmg.com](mailto:v.zhou@kpmg.com)

## Central China

### Anthony Chau

Head of Tax,  
Eastern & Western Region  
Tel. +86 (21) 2212 3206  
[anthony.chau@kpmg.com](mailto:anthony.chau@kpmg.com)

### Yasuhiko Otani

Tel. +86 (21) 2212 3360  
[yasuhiko.otani@kpmg.com](mailto:yasuhiko.otani@kpmg.com)

### Johnny Deng

Tel. +86 (21) 2212 3457  
[johnny.deng@kpmg.com](mailto:johnny.deng@kpmg.com)

### Cheng Dong

Tel. +86 (21) 2212 3410  
[cheng.dong@kpmg.com](mailto:cheng.dong@kpmg.com)

### Marianne Dong

Tel. +86 (21) 2212 3436  
[marianne.dong@kpmg.com](mailto:marianne.dong@kpmg.com)

### Chris Ge

Tel. +86 (21) 2212 3083  
[chris.ge@kpmg.com](mailto:chris.ge@kpmg.com)

### Chris Ho

Tel. +86 (21) 2212 3406  
[chris.ho@kpmg.com](mailto:chris.ho@kpmg.com)

### Henry Wong

Tel. +86 (21) 2212 3380  
[henry.wong@kpmg.com](mailto:henry.wong@kpmg.com)

### Jason Jiang

Tel. +86 (21) 2212 3527  
[jason.jt.jiang@kpmg.com](mailto:jason.jt.jiang@kpmg.com)

### Flame Jin

Tel. +86 (21) 2212 3420  
[flame.jin@kpmg.com](mailto:flame.jin@kpmg.com)

### Sunny Leung

Tel. +86 (21) 2212 3488  
[sunny.leung@kpmg.com](mailto:sunny.leung@kpmg.com)

### Michael Li

Tel. +86 (21) 2212 3463  
[michael.y.li@kpmg.com](mailto:michael.y.li@kpmg.com)

### Karen Lin

Tel. +86 (21) 2212 4169  
[karen.w.lin@kpmg.com](mailto:karen.w.lin@kpmg.com)

### Benjamin Lu

Tel. +86 (21) 2212 3462  
[benjamin.lu@kpmg.com](mailto:benjamin.lu@kpmg.com)

### Christopher Mak

Tel. +86 (21) 2212 3409  
[christopher.mak@kpmg.com](mailto:christopher.mak@kpmg.com)

### Henry Ngai

Tel. +86 (21) 2212 3411  
[henry.ngai@kpmg.com](mailto:henry.ngai@kpmg.com)

### Naoko Hirasawa

Tel. +86 (21) 2212 3098  
[naoko.hirasawa@kpmg.com](mailto:naoko.hirasawa@kpmg.com)

### Ruqiang Pan

Tel. +86 (21) 2212 3118  
[ruqiang.pan@kpmg.com](mailto:ruqiang.pan@kpmg.com)

## Amy Rao

Tel. +86 (21) 2212 3208  
[amy.rao@kpmg.com](mailto:amy.rao@kpmg.com)

## Wayne Tan

Tel. +86 (28) 8673 3915  
[wayne.tan@kpmg.com](mailto:wayne.tan@kpmg.com)

## Tanya Tang

Tel. +86 (25) 8691 2850  
[tanya.tang@kpmg.com](mailto:tanya.tang@kpmg.com)

## Rachel Tao

Tel. +86 (21) 2212 3473  
[rachel.tao@kpmg.com](mailto:rachel.tao@kpmg.com)

## Janet Wang

Tel. +86 (21) 2212 3302  
[janet.z.wang@kpmg.com](mailto:janet.z.wang@kpmg.com)

## John Wang

Tel. +86 (571) 2803 8088  
[john.wang@kpmg.com](mailto:john.wang@kpmg.com)

## Mimi Wang

Tel. +86 (21) 2212 3250  
[mimi.wang@kpmg.com](mailto:mimi.wang@kpmg.com)

## Jennifer Weng

Tel. +86 (21) 2212 3431  
[jennifer.weng@kpmg.com](mailto:jennifer.weng@kpmg.com)

## Grace Xie

Tel. +86 (21) 2212 3422  
[grace.xie@kpmg.com](mailto:grace.xie@kpmg.com)

## Bruce Xu

Tel. +86 (21) 2212 3396  
[bruce.xu@kpmg.com](mailto:bruce.xu@kpmg.com)

## Jie Xu

Tel. +86 (21) 2212 3678  
[jie.xu@kpmg.com](mailto:jie.xu@kpmg.com)

## Robert Xu

Tel. +86 (21) 2212 3124  
[robert.xu@kpmg.com](mailto:robert.xu@kpmg.com)

## Yang Yang

Tel. +86 (21) 2212 3372  
[yang.yang@kpmg.com](mailto:yang.yang@kpmg.com)

## Jason Yu

Tel. +86 (21) 2212 3316  
[jjm.yu@kpmg.com](mailto:jjm.yu@kpmg.com)

## William Zhang

Tel. +86 (21) 2212 3415  
[william.zhang@kpmg.com](mailto:william.zhang@kpmg.com)

## Hanson Zhou

Tel. +86 (21) 2212 3318  
[hanson.zhou@kpmg.com](mailto:hanson.zhou@kpmg.com)

## Michelle Zhou

Tel. +86 (21) 2212 3458  
[nichelle.b.zhou@kpmg.com](mailto:nichelle.b.zhou@kpmg.com)

## Eric Zhang

Tel. +86 (21) 2212 3398  
[eric.zhang@kpmg.com](mailto:eric.zhang@kpmg.com)

## Kevin Zhu

Tel. +86 (21) 2212 3346  
[kevin.x.zhu@kpmg.com](mailto:kevin.x.zhu@kpmg.com)

## Southern China

### Lilly Li

Head of Tax,  
Southern Region  
Tel. +86 (20) 3813 8999  
[lilly.li@kpmg.com](mailto:lilly.li@kpmg.com)

### Penny Chen

Tel. +1 (408) 367 6086  
[penny.chen@kpmg.com](mailto:penny.chen@kpmg.com)

### Vivian Chen

Tel. +86 (755) 2547 1198  
[vivian.w.chen@kpmg.com](mailto:vivian.w.chen@kpmg.com)

### Nicole Cao

Tel. +86 (20) 3813 8619  
[nicole.cao@kpmg.com](mailto:nicole.cao@kpmg.com)

### Sam Fan

Tel. +86 (755) 2547 1071  
[sam.kh.fan@kpmg.com](mailto:sam.kh.fan@kpmg.com)

### Joe Fu

Tel. +86 (755) 2547 1138  
[joe.fu@kpmg.com](mailto:joe.fu@kpmg.com)

### Ricky Gu

Tel. +86 (20) 3813 8620  
[ricky.gu@kpmg.com](mailto:ricky.gu@kpmg.com)

## Fiona He

Tel. +86 (20) 3813 8623  
[fiona.he@kpmg.com](mailto:fiona.he@kpmg.com)

## Angie Ho

Tel. +86 (755) 2547 1276  
[angie.ho@kpmg.com](mailto:angie.ho@kpmg.com)

## Aileen Jiang

Tel. +86 (755) 2547 1163  
[aileen.jiang@kpmg.com](mailto:aileen.jiang@kpmg.com)

## Cloris Li

Tel. +86 (20) 3813 8829  
[cloris.li@kpmg.com](mailto:cloris.li@kpmg.com)

## Jean Li

Tel. +86 (755) 2547 1128  
[jean.j.li@kpmg.com](mailto:jean.j.li@kpmg.com)

## Sisi Li

Tel. +86 (20) 3813 8887  
[sisi.li@kpmg.com](mailto:sisi.li@kpmg.com)

## Mabel Li

Tel. +86 (755) 2547 1164  
[mabel.li@kpmg.com](mailto:mabel.li@kpmg.com)

## Kelly Liao

Tel. +86 (20) 3813 8668