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Relevant industries: Financial sector
Relevant companies: Financial companies
Relevant taxes: N/A

Potential impacts on businesses:

- Entry threshold for foreign investment lowered

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CBRC set to further open up the banking sector

At the 10 November 2017 China-US economic cooperation meeting, Mr. Zhu Guangyao, deputy minster of finance, indicated that China will remove the foreign equity ownership holding requirement for Chinese-funded banks and financial asset management companies. At present there is a 20% limit for a single foreign investor and a 25% limit for several foreign investors collectively. Following the planned changes, both foreign investors and domestic private investors making investments in banks (which are generally state owned enterprises) will be subject to the same equity limit rules (see KPMG *China Tax Weekly Update (Issue 45, November 2017)* for details).

The China Banking Regulatory Commission (CBRC) reaffirmed the relaxation of foreign equity ownership holding limits on 13 December 2017. CBRC also set out the next directions for opening up the banking sector:

- Allow foreign banks to establish operations in China in a wider variety of legal forms (currently, a foreign bank is allowed to set up China operations in the form of a wholly foreign owned bank, a Sino-foreign joint venture bank, a branch of a foreign bank and a representative office of a foreign bank). This aims to encourage a more diversified financial system.
- Broaden the business scope of foreign banks. This includes removing the waiting period for conducting RMB business (such as accepting public deposits, offering RMB denominated loans). Under the current rules, a foreign bank is required to operate for at least one year in China prior to making an application to conduct RMB business. It also includes supporting foreign bank branches to engage in government bond-related businesses, loosening the RMB retail deposit-taking requirement for foreign bank branches, and supporting foreign banks to conduct financial market businesses.
- Refine regulatory rules, including adjusting supervisory requirements on the working capital of foreign bank branches and supervisory evaluation approaches, to further enhance competitiveness.

To implement the above-mentioned policy measures, revisions to existing laws and regulations, along with improvements of prudential regulatory mechanisms and supportive measures would be required. The CBRC is committed to push forward the opening up of the banking sector. In the meantime, the CBRC will continue to improve regulation in order to maintain the safety and soundness of the financial system.

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Relevant industries: Cross-border B2C e-commerce
Relevant companies: Enterprises engaged in cross-border B2C e-commerce
Relevant taxes: Import Customs Duty

Potential impacts on businesses:
- Compliance costs reduced

You may click here to access full content of the circular.

Cross-border B2C e-commerce supervision rules expanded

On 7 December 2017, the Ministry of Commerce (MOFCOM) noted at a press briefing that, starting from 1 January 2018, the existing cross-border B2C e-commerce supervision rules will be expanded to cover 5 additional cities, including Hefei, Chengdu, Dalian, Qingdao and Suzhou, and now there are 15 cities are covered.

In 2016, the Ministry of Finance (MOF), State Administration of Taxation (SAT) and General Administration of Customs (GAC) jointly issued Cai Guan Shui [2016] No. 18 ("Circular 18") setting out a new import tax policy for cross-border B2C e-commerce. Circular 18 requires that e-commerce B2C imports shall be deemed as "goods" rather than "postal articles" and be subject to Import Customs Duty, Import VAT and Import Consumption Tax (see KPMG *China Tax Weekly Update (Issue 12, April 2016)* for more details). Prior to the introduction of this system, the taxation of e-commerce B2C imports had been less well administered, with items subject to a postal tax for which collection mechanisms were somewhat deficient. The new system facilitates e-commerce B2C import clearance, at the same time as it leverages e-commerce platform support to collect tax.

To facilitate the implementation of the new policies, the MOF and ten other authorities had jointly issued (in 2016) two lists of retail goods permitted for import in cross-border e-commerce transactions ("Permitted Import List"). Products imported in cross-border B2C e-commerce transactions which fall within the Permitted Import List shall be subject to Circular 18. 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 Permitted Import List. Certain products included in the Permitted Import List such as cosmetics, infant formula milk powder, healthcare food etc., are subject to initial import licensing approval, registration or filing requirements (see KPMG *China Tax Weekly Update* *Issue 14* and *Issue 15*). Circular 18 and the two Permitted Import Lists should take effect from 8 April 2016.

In response to the complexity created by the limited number of products on the initial lists, the State Council had approved delays (three times) in implementing the requirements set out in the Permitted Import List. Under the latest delay notification issued in September 2017, supervision requirements for the following cross-border e-commerce retail imports will be suspended until the end of 2018 (see KPMG *China Tax Weekly Update (Issue 20, May 2016)* and *(Issue 38, September 2017)* for details):

- For bonded products purchased online and entering the bonded zones in the 10 pilot cities, CIQ Clearance notices would not be subject to CIQ verification procedures. The 10 pilot cities are Tianjin, Shanghai, Hangzhou, Ningbo, Zhengzhou, Guangzhou, Shenzhen, Chongqing, Fuzhou and Pingtan (additional 5 cities are now included and there are 15 cities).
- The initial import licensing approval/registration/filing requirements for cosmetics, infant formula milk powder, medical devices, special food (including healthcare food, formula food) will be suspended.
- The initial import licensing approval/registration/filing requirements for these products (products listed in the 2nd bullet point) for the direct purchase model in all regions will also be suspended.

However, products imported under cross-border B2C e-commerce transactions covered by the Permitted Import List were still subject to the Circular 18 import tax policies.

According to the MOFCOM, a regulation scheme for the cross-border B2C e-commerce transactions is being prepared and this will facilitate enterprises' smooth transition, which will be due to expire at the end of 2018.

* 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)

Other financial and tax related circulars issued by the government agencies this week:

- *SAT's announcement on administration of ordinary VAT invoice (SAT Announcement [2017] No. 44)*
- *Notice of Customs Tariff Commission of the State Council on 2018 Tariff Adjustment Plan (Shui Wei Hui [2017] No. 27)*
- *SAT's reply on determination of taxable income arising from transfer of gas station estates for calculation of land appreciation tax (Shui Zong Han [2017] No. 513)*

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