

China Tax Alert

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Tax and regulatory reforms outlined as National People's Congress meets

Regulations discussed in this issue:

- Report on the Work of the Government (delivered by Premier Li Keqiang at the First Session of the 13th National People's Congress on 5 March 2018)

China's 13th National People's Congress (NPC) and the Chinese People's Political Consultative Conference (CPPCC) are holding meetings in the period March 3-20 2018. A number of regulatory and tax reforms have been announced in the course of the week, in particular in Premier Li Keqiang's government work report address to the NPC.

- **Reduction in tax burden:** The headline tax reduction for 2018 is RMB 800 billion (USD 125 billion) in taxes, and RMB 300 billion (USD 50 billion) in local fees and fund contributions. The major part of the former appears to relate to the planned consolidation of the existing three VAT rates (reduced from four in 2017) to two rates. At the moment the rates are 17%, 11% and 6%. The focus of the planned reform is to lower the VAT burdens on manufacturing (17%) and transport (11%) activity. Achieving this, while moving to a two rate system, may involve the scrapping of the existing rates and creation of new rate bands.
- **Broader tax reforms:** It has also been indicated that the entry threshold for individual income tax (IIT) will be raised. This is to be part of the broader IIT reform which will see consolidated IIT calculations and filings (in place of the current schedular system), and enhanced deductions for children's education and other outlays. This is to occur as China's ability to collect and analyse financial data from around the world on individual taxpayers is seeing rapid enhancement.

The number of small firms benefiting from the reduced (10%) corporate income tax (CIT) rate is set to be greatly increased; currently businesses earning less than USD 70,000 per year can access this rate. In addition, tax depreciation benefits for new equipment will be greatly improved, and the pilot incentives for angel investor and venture capital investment in innovative start-ups will go nationwide.

Other long-stalled tax reforms are also promised to be given a renewed push, including the roll out of real estate tax (RET), and the finalisation of the tax collection and administration (TCA) law.

- **Tax administration reform:** At present, China's tax administration and collection is conducted by thousands of tax offices, organised at province, prefecture, county and township levels (and municipal authorities at equivalent levels).

At each level there are parallel local tax bureaus (LTBs), reporting to the local government at that level and collecting local taxes for local needs, and state tax bureaus (STBs), which collect the central government taxes and fall under the State Administration of Taxation (SAT). The LTBs are now effectively to be merged into the STBs, with the SAT taking the lead on tax system administration, with input from local governments.

The complexities of the existing dual system create many challenges for taxpayers, so this reform holds out the promise of much more user-friendly tax compliance in future. It remains to be clarified whether there will also be a rebalancing of the allocation of tax revenue between local and central government, in parallel with this administrative reform – this would also have implications for ease of compliance.

This reform occurs in parallel with the merging of many government ministries and agencies (e.g. the banking and insurance regulators), which means that foreign companies operating in China will generally have less separate government bodies to deal with in future.

- **Foreign investment liberalization:** The liberalization of foreign investment in telecoms, medical services, education, health care, new energy vehicles, banking (including bank card clearing services), and insurance, announced back in July 2017, is promised to be implemented with detailed rules in the near future.

The 'negative list' for foreign investment, piloted in the free trade zones (FTZs), which eases limits on foreign investment in shipping, port logistics, and urban rail, is also set to be expanded nationwide. Set up procedures for foreign invested enterprises (FIEs) are also to be further simplified. It is noted that, at the same time, China has recently been firming up its regulatory oversight of outbound investment, following the categorisation of outbound investments as encouraged, restricted and prohibited in the August 2017 State Council Circular 74.

In prior years, following the Premier's government work report address to the NPC, various ministries issued details of the policies he had outlined. As such, greater detail of these initiatives should be forthcoming in the next weeks.

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