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Relevant industries: All
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Relevant taxes: All

Potential impacts on businesses:
- Operational costs reduced

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Government sets out key tax action items for 2018

On 5 March 2018, at the opening of the 1st session of China's 13th National People's Congress (NPC), Premier Li Keqiang delivered the *2018 Report on the Work of the Government*. The report highlights that China will further reduce enterprise tax burdens as well as local fees and fund contributions.

Subsequently, officials from the Ministry of Finance (MOF) further clarified the key finance and tax related work items and hot issues at a press conference on the sidelines of the 1st session of China's 13th National People's Congress (NPC). The key matters included:

Value-added tax (VAT)	• 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 reform is to lower the VAT rates for manufacturing (17%) and transportation (11%) sectors. Achieving this, while moving to a two rate system, may involve scrapping the existing rates and create new rate bands. • Increase the VAT registration threshold. Under the existing rules, the threshold for compulsory registration as a general VAT taxpayer for industrial companies is RMB500,000 per annum and for trading companies it is RMB800,000 per annum.
Corporate income tax (CIT)	• Increase the number of small enterprises who can benefit from preferential CIT treatment. Under the existing rules, small enterprises whose annual taxable income are under RMB500,000, are allowed to pay CIT on 50% of their total income at a rate of 20% (i.e., effective rate is 10%). • Improve tax depreciation benefits for new equipment. Under the existing rule, newly purchased equipment may not be deducted in the current year in one go for CIT purposes but may be depreciated over a number of years (e.g. machinery equipment must be depreciated over 10 yeas). • Expand the pilot incentives for angel investors and venture capital investment in innovative start-ups to nationwide (see KPMG *China Tax Weekly Update (Issue 23, June 2017)* for details).

CIT (cont'd)	• Implement enhanced foreign tax credit (FTC) rules. In December 2017, China introduced enhanced FTC rules under which income from all countries (and of all types) can be considered collectively for the calculation of the FTC ceiling. Prior to that, China FTC, granted for foreign tax, was limited by 'country baskets' (see KPMG *China Tax Weekly Update (Issue 1, January 2018)* for details). • Dividend withholding tax (WHT) deferral for reinvestment. In December 2017, the Chinese authorities issued Circular 88. This temporarily defers the imposition of dividend WHT on the distributed profits of a foreign invested enterprise (FIE), where the relevant amounts are reinvested in 'encouraged' projects. SAT's Announcement 3 followed, setting out the implementation rules for the WHT deferral incentive (see KPMG *China Tax Weekly Update (Issue 1, January 2018) and (Issue 3, January 2018)* for details).
Individual income tax (IIT)	• Raise the entry threshold for IIT (currently RMB3,500 for Chinese residents and RMB4,800 for expatriates). • Enhanced deductions for children's education and other outlays. • Broader IIT reform which will see consolidated IIT calculations and filings (in place of the current schedular system). Individual income such as salaries and wages, and independent service income, will be consolidated for the tax calculation.
Real estate tax (RET)	• Push forward the legislation and implementation of RET, in line with three principles: ❑ RET will be legislated first, then be levied; ❑ Grant more power to local government to determine the implementation plan; and ❑ RET will be rolled out on the basis of "city first, then township; citizen first, then farmer; enterprise first, then individual". The RET law bill is currently being drawn up. Major issues are still under discussion (such as the taxpayers in scope).
Other taxes	• Expand the scope of tax incentives for land used for warehousing by logistics enterprises. • Continue application of certain existing tax incentives, which were due to expire on 31 December 2017. These include land appreciation tax (LAT) and deed tax (DT) preferential treatment for corporate restructurings. • Grant a three-year extension of the existing vehicle purchase tax (VPT) preferential treatment for new energy vehicles (i.e., from 1 January 2018 to 31 December 2020, there is a VPT exemption for qualified new energy vehicles). • Reduce customs duty for imported automobiles (currently 25%) and certain imported daily consumer goods etc.

Non-tax burden	• Significantly reduce enterprise "non-tax" fiscal burdens. This means reducing and regularizing the imposition of various local government fees and mandatory contributions to governmental funds. Social security contribution rates will also continue to be lowered (the so-called "five insurances plus housing fund"). • Reduce the charge fees for power grid and prices for power transmission and distribution. For general industrial and commercial enterprise, the price of electricity is reduced on average by 10%. • Deepen the toll road reform and reduce the toll fees. • Put more effort on regulating the fees charged by intermediary services.

On 13 March 2018, the State Council submitted the *Reform Plan of the State Council* to NPC for deliberation. According to the plan, the local tax bureaus (LTBs) will be merged into the State Tax Bureaus (STBs), with the State Administration of Taxation (SAT) taking the lead on tax system administration, with input from local governments.

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

At each level there are parallel LTBs, reporting to the local government at that level and collecting local taxes for local needs, and STBs, which collect the central government taxes and fall under the SAT.

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.

Reference: Gong Shang Qi Zhu Zi [2018] No. 31
Issuance date: 6 March 2018
Effective date: Before the end of June 2018

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

Potential impacts on businesses:
- Compliance costs reduced

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Consolidated business registrations

There has been an ongoing program to simplify and consolidate the various business licenses, registrations and permits which new enterprises in China must obtain. This falls under the "five licenses into one, one license one code" program, which has been rolled out on a nationwide basis since 1 October 2016 (see KPMG *China Tax Weekly Update (Issue 26, July 2016)* for details). As per Circular Guo Ban Fa [2017] No. 41, the State Council directed relevant government authorities to commence implementation of the "multiple licenses into one" reform, throughout the country, starting from 1 October 2017.

To facilitate the reform, 13 government authorities, including the State Administration for Industry and Commerce (SAIC), National Development and Reform Commission (NDRC), Ministry of Public Security (MPS) and MOF, issued Gong Shang Qi Zhu Zi [2018] No. 31 ("Circular 31") on 6 March 2018, setting out the guidance for the "multiple licenses into one" reform.

According to Circular 31, a "24 licenses into one" program, which goes well beyond the existing "five licenses into one" program, will be initially implemented on a nationwide basis by June 2018. The "24 licenses into one" policy allows for 24 licenses* to all be certified at the same time. Under the new policy, an enterprise is required to complete the business registration with local administration of industry and commerce (AIC) and get a business license with a unified social credit code. Administrative licenses in respect of which pre-approvals (as opposed to recordals) are required are not subject to combination under the "24 licenses into one" program.

The 24 licenses, in particular, including:

- Business license (issued in the past by the administration of industry and commerce);
- Tax registration (issued by the local and state tax offices);
- Organization code (issued by quality supervision, inspection and quarantine offices);
- Social insurance registration (issued by HR and social security offices);
- Statistics registration license (issued by statistics bureaus);
- Recordal for a branch's business license (issued in the past by the administration of industry and commerce);
- Certification for enterprises subject to inspection and quarantine for imports into and exports from China (issued by local entry-exit inspection and quarantine bureaus);
- Recordal for carving of official seal (completed with local MPS offices);
- Recordal for international freight forwarding agencies (completed with local commercial administrations);
- Recordals for FIEs (completed with local commercial administrations);
- Registration certificate for an enterprise engaged in customs declaration (issued by local customs offices);
- Recordal for an enterprise, and its branches, engaged in assets valuation (completed with local MOF);
- Recordal for companies engaged in labour outsourcing, where setting up branches (completed with HR and social security offices).

Reference: GAC Order No. 237
Issuance date: 3 March 2018
Effective date: 1 May 2018

Relevant industries: All
Relevant companies: Enterprises engaged in imports and exports
Relevant taxes: Custom duty / Imported VAT

Potential impacts on businesses:
- Compliance and regulatory requirements increased

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New customs credit rating rules

On 3 March 2018, the General Administration of Customs (GAC) set out a new system for *Administrative Measures for Customs Credit Rating* under GAC Order No. 237 ("the 2018 Measures"). Effective from 1 May 2018, the 2018 measures will supersede the existing Interim Measures ("the 2014 Measures"), which was issued in 2014 under GAC Order No. 225. The 2018 Measures made the following notable amendments to the Interim Measures:

- **Differentiated administration for high and low risk enterprises**. China Customs currently categorises business operators, using a risk management analysis, into: (i) senior certified enterprises; (ii) general certified enterprises; (iii) general enterprises; and (iv) discredited enterprises. The 2018 Measures continue differentiated administration based on credit ratings, with certain adjustments.

  Firstly, the specific inspection rates are clarified in the 2018 Measures (these were absent from the 2014 Measures). It is directed that for the general certified enterprises and senior certified enterprises, the average inspection rates for imported and exported goods should fall beneath 50% and 20% (respectively) of the average inspection rate used for general enterprises (which can differ from one local customs office to another). However, for discredited enterprises, the average inspection rate will be at least 80%.

  Secondly, the 2018 Measures also remove/add some measures, relative to the 2014 Measures. The newly-added measures include:

  (i) general certified enterprises – the risk guarantee deposit that they must give to Customs may be less than the tax payable amount or the amount prescribed by the GAC;

  (ii) senior certified enterprises - may apply for exemption from the guarantee deposit requirement;

  (iii) discredited enterprises – (a) hoisting, shifting and warehousing expenses, which are borne by the Customs authorities in conducting inspections, are normally recharged to the audited enterprise when an inspection result is abnormal, but waived where normal. In the case of discredited enterprises, however, the recharge will be made, even where the result is normal, (b) the consolidated customs duty collection approach may not be utilised (see KPMG *China Tax Weekly Update (Issue 38, September 2017)* for further details on the approach).

- **Clarify intermediary involvement in credit rating assessment.** The 2018 Measures clarify that the intermediaries (such as accounting or law firms) are permitted to assist either the customs authorities or an enterprise in evaluating and expressing a professional opinion on the credit rating granted by the authorities to an enterprise.

With regard to the detailed analysis of the 2018 Measures, please read the following KPMG publication:

- *China Tax Alert: General Administration of Customs Issued New Enterprise Credit Management Measures Favorable to High Credit Enterprises (Issue 6, March 2018)*

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