



# China Tax Weekly Update

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Reference: Cai Shui [2018]  
No. 21

Issuance date: 13 March  
2018

Effective date: 13 March  
2018

Relevant industries: All  
Relevant companies: Foreign  
investors  
Relevant taxes: CIT / IIT

Potential impacts on  
businesses:

- Operational costs reduced

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

## Tax policies to support futures markets

On 13 March 2018, the Ministry of Finance (MOF), State Administration of Taxation (SAT) and China Securities Regulatory Commission (CSRC) jointly issued [Cai Shui \[2018\] No. 21](#) ("Circular 21"), setting out the tax policies for income derived by foreign institutional investors from trading activity in Chinese futures markets (such as crude oil futures).

Circular 21 is effective from the issuance date and clarifies the following:

- Corporate income tax (CIT) may be temporarily exempted for income derived by the following foreign institutional investors from trading crude oil futures in the Chinese market (excluding income derived from physical delivery):
  - Foreign institutional investors (including overseas futures brokers) that have no offices or premises established in China; or
  - Foreign institutional investors (including overseas futures brokers) that have offices or premises in China but their income derived is not effectively connected to the offices or premises in China.
- Commission income derived by overseas futures brokers from providing agency services (which are rendered overseas) to foreign investors for trading crude oil futures in the Chinese market, is not regarded as China-sourced income and, therefore, the authorities have confirmed that this income would not be subject to CIT.
- Any income derived by foreign individual investors from trading crude oil futures in the Chinese market is temporarily exempted from individual income tax (IIT) within 3 years from the launch date of Chinese crude oil futures at the Shanghai International Energy Exchange (INE), i.e., from 26 March 2018 to 25 March 2021.

Circular 21 will also apply to other commodities futures (beyond oil) that may be later approved by the State Council for opening up to foreign investors.

A VAT exemption is granted for bonded deliveries of crude oil futures, transacted through the Shanghai International Energy Exchange (INE). The bonded delivery must occur within a Customs Special Supervision Area or at a bonded supervision premises. In July 2017, the SAT issued Announcement 29, which clarified the administration of the VAT exemption (see KPMG [China Tax Weekly Update \(Issue 32, August 2017\)](#) for details).

Reference: Shui Zong Fa [2018] No. 32

Issuance date: 16 March 2018

Effective date: 16 March 2018

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

Potential impacts on businesses:

- Compliance costs reduced

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## SAT reduces costs of online tax filing

On 16 March 2018, the SAT issued [Shui Zong Fa \[2018\] No. 32](#) ("Circular 32"), setting out the Reference Criterion (V1.0) for the Conversion of Financial Data (the "Reference Criterion"). Circular 32 requires provincial tax authorities to upgrade their online tax filing systems based on the Reference Criterion. Key tasks include:

- Upgrading the online tax filing system to save taxpayers time on online tax filing. Specifically, after the upgrade: (i) the online tax filing system can be connected to the taxpayer's financial/accounting system; (ii) the taxpayer's financial data could be automatically converted into data for online tax filing purposes; and (iii) tax payable can be automatically calculated by the authority's filing system.
- Provincial tax authorities must ensure the security of the submitted data.
- Tax authorities in Beijing and Shanghai are required to launch the interface by March 2018, while other provincial tax authorities must do so by April 2018.

This is in line with SAT's [Circular 101](#) which was issued in September 2017. Circular 101 set out 30 measures to simplify tax administration, which committed to implement online tax filing (see KPMG [China Tax Weekly Update \(Issue 38, September 2017\)](#) for details).

Reference: PBOC Announcement [2018] No. 7  
Issuance date: 19 March 2018  
Effective date: N/A

Relevant industries: E-payment service sector  
Relevant companies: Foreign investors  
Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced
- Compliance risks due to regulatory uncertainties reduced

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

## China increases foreign investment access to payment services sector

On 19 March 2018, the Peoples' Bank of China (PBOC) issued [Announcement \[2018\] No. 7](#) ("Circular 7"). This sets out the access and regulatory policies for foreign investment in the payment services sector.

Specifically, Circular 7 clarifies:

- Where a foreign institution intends to provide e-payment services to Chinese enterprises on their domestic or cross-border transactions, the foreign institution must set up a foreign-invested enterprise (FIE) in China. The FIE is required to get a license to provide payment services, governed by the [Administrative Measures on Payment Services Provided by Non-financial Institutions](#), PBOC Order [2010] No. 2 ("Order No. 2").

According to Order No. 2, payment services provided by non-financial institutions refer to funds transfer services (such as online payment, issuance and acceptance of prepaid cards, bank card acceptance) provided by non-financial institutions as an intermediary between payees and payers.

- A foreign-invested payment institution is required to implement a secure and standardised payment processing computer system, and a disaster recovery system, which can complete the payment transactions independently within China.

- Personal information and financial information collected and generated in China by a foreign-invested institution must be stored, processed and analyzed in China. Information which needs to be transmitted out of the country for cross-border business reasons shall be subject to limitations (e.g. rules of the Cyberspace Administration of China). The foreign-invested payment institutions must require the overseas parties to keep such information confidential. The transmission must be agreed by the owners of the personal information ([see KPMG China Tax Weekly Update \(Issue 43, November 2016\)](#) and [\(Issue 15, April 2017\)](#) for more information on the Cybersecurity Law).
- The foreign-invested payment institution's corporate governance, daily operation, risk management, fund processing, customers' prepayments, and emergency arrangements must comply with the PBOC's regulatory requirements on non-bank payment institutions.

The introduction of Circular 7 signifies that China is opening the third-party payment sector to foreign investment. This is in line with a speech made by Mr. Fan Yifei, deputy governor of the PBOC in November 2017, that China will encourage foreign companies to participate in the development of Chinese e-payment services (see KPMG [China Tax Weekly Update \(Issue 45, November 2017\)](#) for details).



### Other recent regulatory and tax circulars:

- ❑ [MOF, GAC and SAT set out the 2018 plan for imported seeds and seed sources eligible for imported VAT exemption](#) (Cai Guan Shui [2018] No. 6, issued on 15 March 2018)
- ❑ [SAT sets to carry out the 27<sup>th</sup> campaign to publicize tax services in April 2018](#) (Shui Zong Ban Fa [2018] No. 38, issued on 16 March 2018)
- ❑ [SAT starts to use special seal for making government affairs public](#) (Shui Zong Ban Han [2018] No. 96, released on 8 March 2018)

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