

China Tax Weekly Update

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Reference: SAT
Announcement [2018] No. 21
Issuance date: 28 April 2018
Effective date: 1 May 2018

Relevant industries: All
Relevant companies: All
Relevant taxes: IIT

Potential impacts on
businesses:

- Operational costs
reduced

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full content of the circular.

Private pension IIT relief implementation rules

The Chinese government is looking to foster greater use of private pensions through individual income tax (IIT) regime changes. To this end, China is putting in place an exemption-exemption-taxation (EET) system, similar to those in use in many other countries, such as the US 401K regime. This is being piloted in Shanghai, Fujian and Suzhou Industrial Park from 1 May 2018, and applies to so-called "voluntary commercial endowment plans" (see KPMG [China Tax Weekly Update \(Issue 15, April 2018\)](#) for details).

Under the pilot system: (i) contributions to an eligible commercial endowment insurance plan, which are deposited in an individual retirement account (IRA), are allowed to be deducted for IIT purposes, subject to certain limits. This makes the income contributed to the plan effectively "exempt" at the time of contribution; (ii) investment gains generated by the funds in the IRA are treated as tax exempt; and (iii) IIT applies when the amounts in the IRA are withdrawn at retirement.

To complement this, on 28 April 2018, the State Administration of Taxation (SAT) issued [Announcement \[2018\] No. 21](#) ("Announcement 21"), which provides further clarifications:

- A detailed statement, recording premiums paid into each eligible commercial endowment insurance product, must be submitted to the tax authorities, along with the IIT filing return, by an individual taxpayer or a withholding agent.
- If an individual taxpayer does not renew his/her policy or cancels his/her policy, the taxpayer must inform its withholding agent or in-charge tax authority to terminate the deduction for IIT purposes, in a timely manner.
- If an individual fails to provide its withholding agent with the documentary proof supporting the policy deductions in time and, as a result, the premiums paid cannot be deducted for IIT purposes for prior months, the individual can still retroactively apply to the IIT preferential treatment. Deduction or tax refund can be claimed in the month of receipt of the documentary proof.

With regard to the details and impact of the pilot IIT preferential treatment for commercial endowment plan, please read KPMG [China Tax Alert \(Issue 10, April 2018\)](#).

Reference: SAT
Announcement [2018] No. 23
Issuance date: 25 April 2018
Effective date: 2017 CIT
annual filing and onwards

Relevant industries: All
Relevant companies: All
Relevant taxes: CIT

Potential impacts on
businesses:
• Operational costs reduced

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Simplified procedures for claiming CIT benefits

In recent years, the government has implemented a program of replacing administrative pre-approvals with simple recordal requirements, coupled with targeted and effective follow up audit and review. In the CIT space, it was already announced in 2015, in SAT Announcement 76, that pre-approvals for enjoyment of CIT preferential treatments would be fully replaced by simple recordal requirements.

On 25 April 2018, the SAT issued [Announcement 23](#) abolishing the recordal requirement. Instead, a new simplified method will be used to manage the CIT preferential items, which applies from the 2017 CIT annual filing onwards.

Building on Announcement 76, Announcement 23, makes changes to:

- **Simplify procedures for claiming CIT benefits.** As noted above, Announcement 23 introduces a new simplified method to access CIT preferential treatments. It allows taxpayers to determine for themselves whether they qualify for the CIT preferential treatment, and declare the CIT incentives they have enjoyed in the CIT annual filing. The taxpayers are required to maintain supporting documents, in case of future audit.
- **Set out an updated list (i.e. “2017 version”) of CIT preferential items.** There is a broad range of CIT preferential items including tax exemptions, tax basis deductions, super deductions, accelerated depreciation, tax credits, tax rate reductions, etc. The 2017 version of this list, replacing that from 2015, introduces greater consistency between the listing and the various CIT filing forms.
- **Classify supporting documents as “principal” or “other” documents.** Taxpayers are required to collect and maintain on file the tax relief supporting documents, listed as “principal documents” in the 2017 version list. Documents listed as “other documents”, by contrast, do not need to be maintained on file, but may need to be resourced by the taxpayer, if and when the authorities request them in clarification of uncertain matters.
- **Focus on follow-up administration.** Under Announcement 23, taxpayers in the software and integrated circuit (IC) sectors, who have claimed CIT benefits, must submit their principal supporting documents to the authorities before the deadline of CIT annual filing (i.e. 31st May). For other taxpayers, the follow-up tax administration requirements will be set out by their provincial tax authorities. Tax authorities will strengthen their follow-up administration.

Reference: Cai Shui [2018] No. 38

Issuance date: 19 April 2018
Effective date: 1 January 2018 to 31 December 2020

Relevant industries:

Animation industry

Relevant companies:

Animation enterprises

Relevant taxes: VAT

Potential impacts on businesses:

- Operational costs reduced

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Continuance of VAT incentives for the animation industry

On 19 April 2018, the Ministry of Finance (MOF) and SAT jointly issued [Cai Shui \[2018\] No. 38](#) ("Circular 38"). This extends the existing value-added tax (VAT) incentives for the animation industry as set out in the 2013-issued [Cai Shui \[2013\] No. 98](#) ("Circular 98"), which expired on 31 December 2017.

The content of Circular 38 remains unchanged when compared to Circular 98. In particular, Circular 38 clarifies:

- From 1 January 2018 to 31 December 2020, self-developed animation software sold by animation enterprises, which are recognized as VAT general taxpayers, should be subject to VAT at 16% (17% for the period from 1 January 2018 to 30 April 2018). Furthermore, a "refund-upon-levy" policy is also applied, i.e. the portion of the actual tax burden in excess of 3% shall be refunded upon collection.

For example, sales income for self-developed animation software in May 2018 is RMB100 and the VAT payable is RMB13.8 (assuming no input VAT credit). Tax refund under "refund-upon-levy" policy is RMB11.2 (13.8-100/(1+16%)*3%).

In order to obtain a tax refund, a taxpayer is required to submit the relevant documents to its in-charge tax authority. From December 2011, a "refund first, then assessment" method is adopted by tax authorities where taxpayers would first get a tax refund upon submission of the relevant documents to the tax authorities. If the tax authorities detect any errors in the review of the documents, the refunded tax would be recovered from the taxpayer and penalties may be incurred. Per the [Tax Collection and Administration Law](#), a fine of 50% to 300% of the underpaid tax may be imposed.

- A VAT exemption will be granted to exported animation software.

Reference: N/A
 Issuance date: 27 April 2018
 Effective date: N/A

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

Potential impacts on businesses:
 • Operational costs reduced

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More investment tax guides for "going out" enterprises

On 27 April 2018, SAT issued [investment tax guides](#) for an additional 10 jurisdictions, and at the same time, updated the existing tax guides for 15 jurisdictions including Vietnam and Indonesia.

As of today, the tax guides cover 75 jurisdictions, including many Belt and Road Initiative (BRI) countries and major Chinese outbound investment destination countries. The tax guides were compiled based on extensive research on the tax system of each jurisdiction, and aim to meet the investment needs of Chinese "going out" enterprises.

Recent steps taken by SAT to support the BRI and "going out" enterprises:

- At the "Belt and Road" Forum, held in Beijing on 14 and 15 May 2017, Mr. Wang Jun, Director of the SAT, recapped on the measures taken so far by the SAT to strengthen tax cooperation amongst countries along the Belt and Road. He also further elaborated on the SAT's future plans to better serve the BRI, which were already set out in some detail in [Shui Zong Fa \[2017\] No. 42](#) ("Circular 42") of 24 April 2017.
- Circular 42 sets out tax administration initiatives to better serve the BRI, from the following four aspects:
 - ❑ Ensure implementation of tax treaties and improve domestic tax policies;
 - ❑ Improve tax services for "going out" enterprises. These include (i). categorisation of enterprises for export VAT refund (exemption); (ii). simplification of procedures for export VAT refund (exemption); (iii). issuance of China tax resident certificates;
 - ❑ Tax guidance publications for investee countries. The tax guides also cover foreign business regulations, tax rules, and relevant bilateral tax treaties; and
 - ❑ International taxation cooperation. Tax authorities at all levels are required to implement bilateral cooperative memoranda signed with the tax administrations of countries along the BRI countries. These countries are to actively participate in regional communication and cooperation platforms, such as the China-Eurasia Expo. Mechanisms shall also be established to provide for cross-border transaction information sharing between the SAT and other authorities, such as SAFE, MOFCOM, NDRC, GAC, and the Exit-Entry Administration.

(see KPMG [China Tax Weekly Update \(Issue 18, May 2017\)](#) for details).

- In October 2017, the State Administration of Taxation (SAT) released [Tax Guidance for Outbound Investment](#) ("the OI Guidance"). This aims to better serve the national external economic strategy, and lower "going out" taxpayers' tax risks. The OI Guidance summarizes 83 items which has been divided into four categories: tax policies, tax treaties, administrative rules and tax service measures. Each item consists of four sections, specifying applicable taxpayers, applied tax policies/treaties, application conditions and legal basis (see KPMG [China Tax Weekly Update \(Issue 43, November 2017\)](#) for details).

In relation to key corporate tax issues that "going out" enterprises may face, and how the Chinese authorities are supporting Chinese enterprises to navigate through these overseas tax challenges, please read the following KPMG publication:

- ❑ An article entitled *A thousand miles begin with a single step: tax challenges under the BRI* in [China Looking Ahead \(7th edition\)](#)

Reference: CSRC Order No.

140

Issuance date: 28 April 2018

Effective date: 28 April 2018

Relevant industries: Financial sector

Relevant companies:

Securities enterprises

Relevant taxes: N/A

Potential impacts on businesses:

- Market access for foreign investment relaxed

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Limits on foreign investment in securities companies eased

On 28 April 2018, China Securities Regulatory Commission (CSRC) issued CSRC Order No. 140 with the finalised [Administrative Measures on Foreign-invested Securities Enterprises](#) (the "2018 Measures").

Before the finalisation, CSRC had solicited public comments on the draft measures in March 2018 (see KPMG [China Tax Weekly Update \(Issue 11, March 2018\)](#) for details).

In comparison with the draft measures, there are no significant changes in the finalised 2018 Measures. The 2018 Measures make revisions to the 2012-issued [Rules on Establishment of Foreign-invested Securities Companies](#) (the "2012 Measures), including:

- **Allowing foreign investors to control joint-venture (JV) securities companies.** The 2018 Measures remove the requirements set for domestic shareholders in JV securities companies. Under the 2012 Measures, it required that at least one domestic shareholder in a JV securities company must be a Chinese-funded securities company.
- **Gradually expanding the business scope of JV securities companies.** Newly established JV securities enterprises are allowed to apply for a registered scope of securities business activity which mirrors the securities business experience and competencies of its controlling or largest shareholder. This may allow for broader scope of activities where the parent enterprise is highly experienced in certain fields.
- **Aligning foreign equity ownership limits in listed and non-listed securities companies.** The equity ownership limits for foreign investment in listed securities companies (taking several foreign investors collectively) is adjusted to "must meet the commitment that China has made for the opening up of the securities sector" (currently 51%). This is in line with the foreign equity ownership limits set for non-listed securities companies.
- **Improving qualifying conditions for foreign investors.** The 2018 Measures amend the following qualifying conditions:
 - (i) Foreign investors must now all be financial institutions. Under the 2012-issued rules, this requirement was 'one foreign investor at least should be a financial institution';
 - (ii) Under the 2012 measures, foreign investors had to have a good international reputation and solid business performance. The 2018 draft measures adds to this in that, in the past three years, their global business scale, revenue and profits must have been at the forefront of the world, and they must have highly-scored long-term credit rating.
- **Clarifying the requirements for indirect foreign investment in Chinese-funded securities companies.** There may be cases where the effective controlling party, of a Chinese-funded securities company, changes from being a Chinese person to a foreign person, without there being a change in the direct equity holder of the securities company. This could be where there is a change in the ownership of a higher-tier overseas holding company, i.e. an indirect offshore transfer. To address this, the 2018 Measures look through such arrangements and require the new foreign investors, who have taken control, to meet certain qualifying conditions within 3 months. Some of the qualifying conditions for the foreign investor include:

(i) The foreign investor must be a financial institution established legitimately in its home country or region; (ii) the financial institution has been operating securities business for five or more years and has not been subject to major penalties imposed by regulatory authorities or judiciary authorities of its home country or region in the past three years; (iii) the financial institution has solid internal control system).

CSRC has updated the relevant administrative guidance for establishing securities companies following the 2018 Measures. When an eligible foreign investor intends to set up a JV securities companies, both of the 2018 Measures and the guidance should be read together, when making an application.

At the China-US economic meeting held in November 2017, China also made commitments on: (i) removing the foreign equity ownership holding requirement for Chinese-funded banks and financial asset management companies; (ii) relaxing the foreign investor equity holding limit for life insurance companies; and (iii) reducing customs duty for imported automobiles (see KPMG [China Tax Weekly Update \(Issue 45, November 2017\)](#) for details).



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