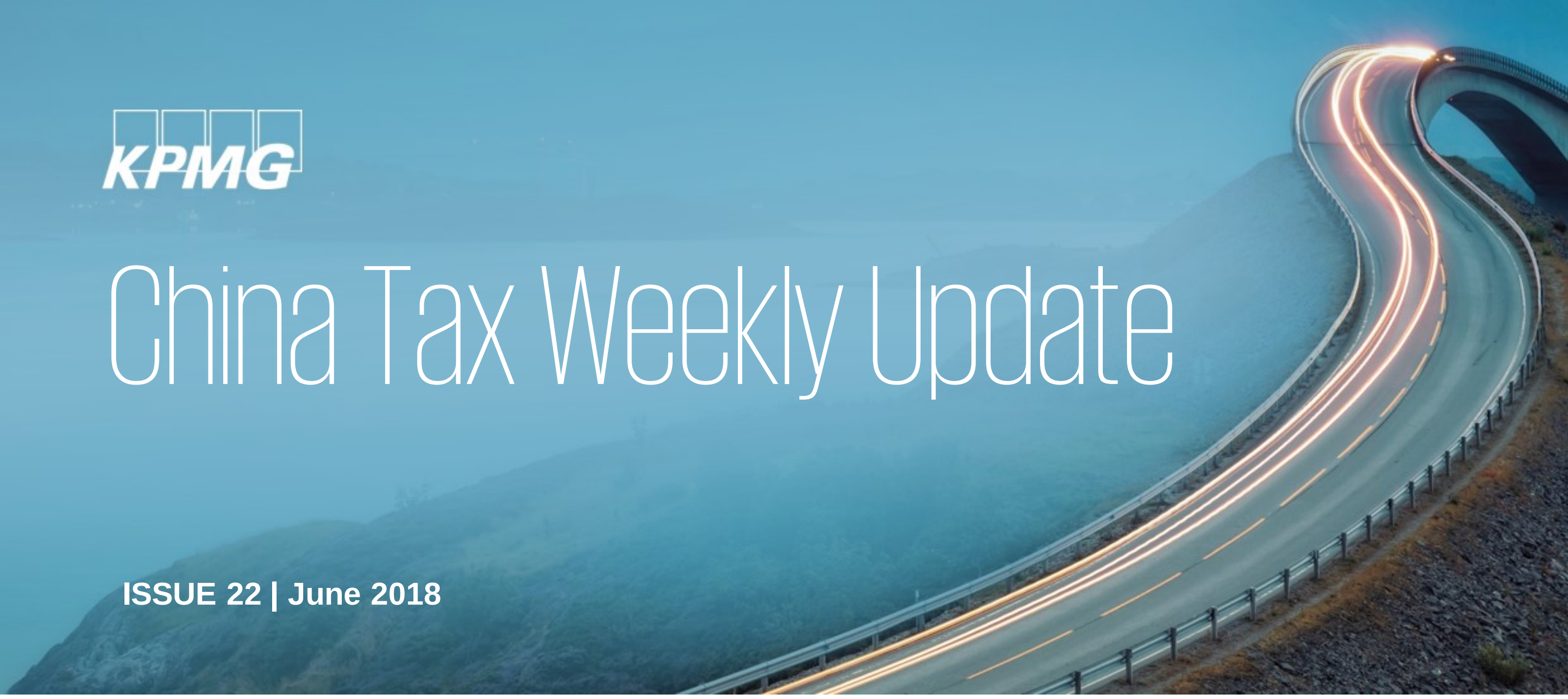

China Tax Weekly Update

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Reference: Cai Shui [2018] No. 44
Issuance date: 19 May 2018
Effective date: 1 January 2018

Relevant industries: Service sector
Relevant companies: Advanced technology services enterprises
Relevant taxes: CIT

Potential impacts on businesses:

- Actual tax burden lowered

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

Nationwide tax incentives for advanced tech services

On 19 May 2018, five government authorities, including the Ministry of Finance (MOF) and State Administration of Taxation (SAT), jointly issued Cai Shui [2018] No. 44 ("Circular 44"). This permanently extends nationwide the corporate income tax (CIT) incentives for advanced technology services enterprises (ATSEs) that provide a number of 'technically advanced services', including computer and information services, research and development technical services, cultural activity-related technical services, and medical services linked to traditional Chinese medicine. These incentives had already been provided from 2016 onwards, on a pilot basis, in 15 service innovation development zones (SIDZs).

It should be noted that the ATSE incentive for these 'technically advanced services' has operated in parallel with a longer running ATSE scheme for outsourcing enterprises providing information technology outsourced services (ITO), technical business process outsourced services (BPO) and technical knowledge process outsourced services (KPO). The nature of the incentives granted is the same. The ATSE incentives for outsourced services were expanded to nationwide from 1 January 2017 under Cai Shui [2017] No. 79 ("Circular 79"). Prior to that, they were available for enterprises registered in 31 pilot cities (see KPMG *China Tax Weekly Update (Issue 44, November 2017)* for details). This means that, with the issuance of Circular 44, both the ATSE schemes for 'technically advanced service' providers, and for outsourcing enterprises, apply on a nationwide basis.

For the background on the ATSE scheme for 'technically advanced service' providers, in November 2016, five government authorities issued Cai Shui [2016] No. 122 ("Circular 122"), offering the following preferential CIT treatment to ATSEs in the 15 pilot zones, in the period from 1 January 2016 to 31 December 2017:

- An ATSE, upon recognition, could qualify for a 15% reduced CIT rate (standard rate is 25%); and
- Staff education expenses not exceeding 8% of the total amount of salary could be deducted for CIT purposes (this is an increase from the 2.5% threshold applied under the CIT Law). Any excess amount can be carried forward to the following years (The 8% limitation is now being expanded to all enterprises nationwide from 1 January 2018 under Cai Shui [2018] No. 51, see KPMG *China Tax Weekly Update (Issue 19, May 2018)* for details).

The SIDZs benefiting from the original pilot program were located in 10 provinces (cities), as well as 5 'new zones'. The 10 provinces (cities) were Tianjin, Shanghai, Hainan, Shenzhen, Hangzhou, Wuhan, Guangzhou, Chengdu, Suzhou and Weihai and the 5 new zones were Harbin, Jiangbei of Nanjing, Liangjiang of Chongqing, Gui'an of Guizhou and Xixian of Shaanxi (see KPMG *China Tax Weekly Update (Issue 47, December 2016)* for details).

Circular 44 applies retroactively from 1 January 2018. According to Circular 44, an ATSE is also required to observe the relevant provisions of Circular 79 when applying for the preferential CIT treatment. These include:

- The ATSE must be incorporated within China (excluding Hong Kong, Macau and Taiwan);
- Staff with college or above qualifications shall account for 50% of the total staff in the enterprises;
- Income derived from provision of technically advanced services shall account for more than 50% of the enterprise's total income for the year; and
- Income derived from offshore service outsourcing business shall not be less than 35% of the enterprise's total income for the year.

Reference: Cai Shui [2018] No. 58
Issuance date: 29 May 2018
Effective date: 1 July 2018

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

Potential impacts on businesses:
- Actual tax burden lowered

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

IIT incentives for scientific and technical staff

China's State Council has issued several measures in February 2016, under Guo Fa [2016] No. 16, to support research and development (R&D). R&D institutions, colleges and universities, enterprises, as well as scientific and technical personnel, were provided with a broader range of support measures, beyond tax, in relation to transfer or transformation their scientific and technical breakthroughs (see KPMG *China Tax Weekly Update (Issue 8, March 2016)* for details).

Taking a further step, on 29 May 2018, the MOF, SAT and Ministry of Science and Technology (MOST) jointly issued Cai Shui [2018] No. 58 ("Circular 58"). This sets out preferential individual income tax (IIT) treatment for science and technology staff.

According to Circular 58, from 1 July 2018, special tax treatment applies to cash rewards received by scientific and technical staff who make significant contributions to R&D breakthroughs. Only 50% of the cash rewards will be taxed as wages and salaries. This means the remainder 50% of the cash rewards will be exempted from IIT. To enjoy the IIT incentive, Circular 58 also provides the following:

- The cash rewards must be given by non-profit scientific research institutions or universities, which may be established by the State or by the private companies. The cash awards must be paid to the staff within 36 months of the research institutions or universities obtaining income generated from the monetization of the scientific and technical breakthroughs. In this regard the breakthroughs monetized may include patented technology (including national defense patent), copyrights for computer software, patent rights for layout designs of integrated circuit, right of new variety plant, new biomedical varieties, and other technologies determined by the MOST, MOF and SAT. Monetization may be by way of sale or license. Relevant contracts must be registered with local MOST authorities.
- The names of the scientific and technical staff who made significant contributions to the breakthroughs, and relevant information on their contributions, are required to be publicized by the research institutions or universities. Information on transfers of patents relevant to national defense are exempted from the publicity requirement.

Circular 58 also clarifies that:

- Non-profit scientific research institutions or universities should set up a sound accounting system to record relevant sales and license income. Normal salaries and wages cannot be treated as cash rewards to enjoy the IIT preferential treatment.
- Non-profit scientific research institutions or universities must withhold IIT. A recordal filing with tax authorities for application of the IIT preferential treatment is also required.

Reference: Shui Wei Hui Announcement [2018] No. 4
Issuance date: 31 May 2018
Effective date: 1 July 2018

Relevant industries: Automobile sector
Relevant companies: Enterprises importing automobiles and auto parts
Relevant taxes: Import tariff

Potential impacts on businesses:
- Operational costs reduced

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

Import tariff reduction for consumer goods

On 31 May 2018, the Customs Tariff Commission of the State Council issued Shui Wei Hui Announcement [2018] No. 4 ("Circular 4"). This clarifies that, from 1 July 2018, import tariffs rates on certain daily consumer goods will be reduced. Prior to that, the Chinese government has reduced import tariffs rates on automobiles and auto parts on 22 May 2018 (see KPMG *China Tax Weekly Update (Issue 21, May 2018)* for details).

The reduction of import tariffs is in line with a keynote speech made by Chinese President Xi Jinping at the opening ceremony of the Boao Forum for Asia (BFA) Annual Conference on 10 April 2018. President Xi highlighted that, China will significantly reduce import tariffs for imported automobiles (currently 25%) in 2018. Reduction of import tariffs, at the same time, will also apply to certain imported products (such as foodstuffs, cosmetics, garments). China will increase imports to take account of consumer needs and seek faster progress towards joining the WTO Government Procurement Agreement (see KPMG *China Tax Weekly Update (Issue 15, April 2018)* for details).

According to Circular 4, most-favored-nation (MFN) tariff rates for 1449 imported consumer products will be reduced as follows:

- the average import tariff for garments, kitchen utensils and fitness equipment will be reduced from 15.9% to 7.1%;
- the average import tariff for household appliances (such as washing machines and refrigerators) will be reduced from 20.5% to 8%;
- the average import tariff for processed foods (such as seafood, mineral water) will be reduced from 15.2% to 6.9%;
- the average import tariff for cleaning supplies, cosmetics such as skin care and hairdressing products, and certain medical and health products will be reduced from 8.4% to 2.9%.

Reference: SAT Announcement [2018] No. 26
Issuance date: 17 May 2018
Effective date: 1 July 2018

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

Potential impacts on businesses:
- Compliance costs reduced

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

Revised Corporate Income Tax (CIT) Filing Forms

On 17 May 2018, the SAT issued Announcement [2018] No. 26 ("Announcement 26"). This sets out revised CIT annual/quarterly/monthly filing forms, to be used from 1 July 2018, with the following features.

- **Simplification:** It is asserted that the information requirements of the revised CIT filing forms are 65% less than the old filing forms (i.e. the "2015 version"). For example, for each entry, the "current amount" column is removed while the "accumulated amount" column is retained. This is the case for the CIT quarterly/monthly filing forms, as well as their appendices. Accelerated fixed asset depreciation forms are also simplified.
- **Improved form structure**: Duplicated entries in the forms are merged. A new appendix is set up for the "Income Tax Allocated to the Branches of Enterprises under Consolidated Payment of Corporate Income Tax".
- **Adjust form information requirements**: Recent tax policy changes are now reflected in the forms. This includes, for example, adding an entry for the new CIT incentive for integrated circuit (IC) enterprises producing chips with width less than 130 nanometers (Cai Shui [2018] No. 27).

Announcement 28 also clarifies that branches of the following enterprises must fill in the new CIT filing forms:

- Enterprises doing business across several provinces in China and are subject to CIT consolidated filing as per the 2012-issued SAT Announcement 57*;
- Enterprises that solely set up branches within a same Chinese province (may across several different Chinese tax districts), but are subject to CIT consolidated filing as per Announcement 57 as well.

* Announcement 57 is an administrative measure to regulate CIT consolidated filing by enterprises that are doing business across the regions.

Other recent regulatory and tax circulars:

- MOF, SAT and MIIT’s announcement on vehicle purchase tax relief for trailers (MOF SAT MIIT Announcement [2018] No. 69, issued on 25 May 2018)
- MOFCOM issues new recordal filing forms for foreign-invested enterprise establishment and alteration (MOFCOM Announcement [2018] No. 41, issued on 14 May 2018)
- Hainan Department of Commerce (DOFCOM) issues administrative measures on recognition of headquarter enterprises in Hainan (released on 19 May 2018)

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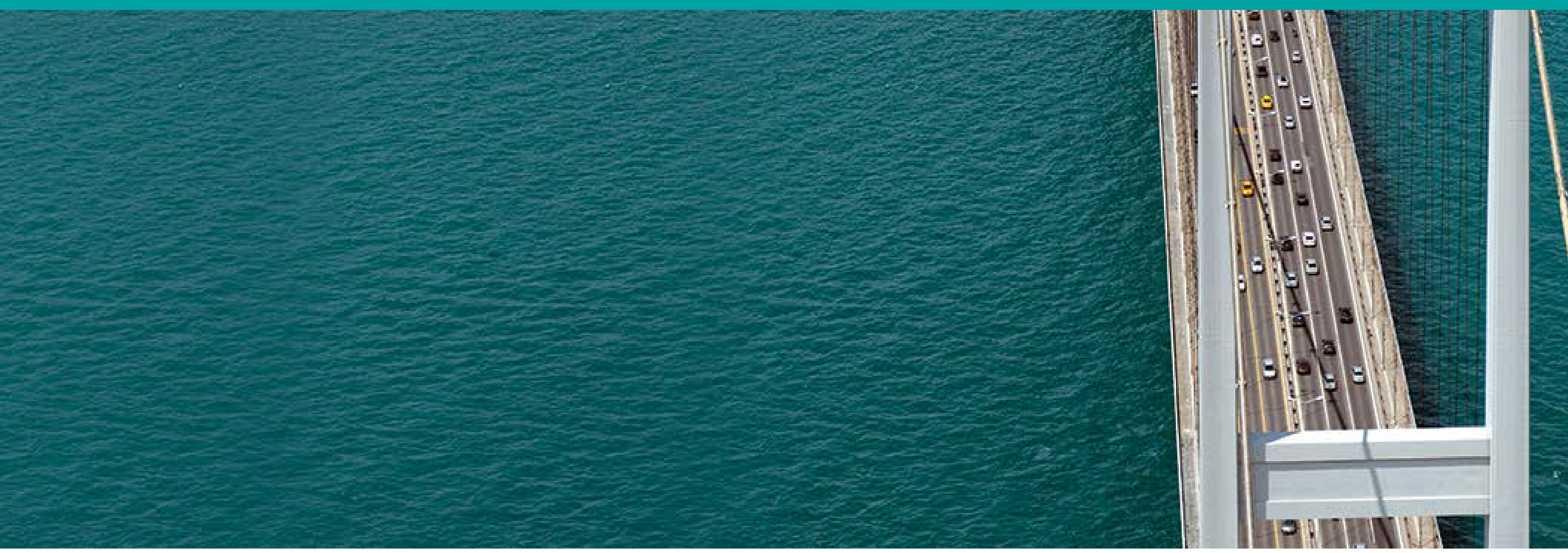

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