



China Tax Weekly Update

ISSUE 24 | June 2018

Reference: N/A
Issuance date: N/A
Effective date: N/A

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

Potential impacts on businesses:

- Attention on the reform impacts on fiscal and tax-related matters is required

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

Merger of state and local tax bureaus progresses

Currently, the State Council is in the process of merging many government authorities and agencies. This includes merging local tax bureaus (LTBs) and state tax bureaus (STBs), which have up to now separately administered tax revenues flowing to local governments and to the central government.

On 15 June 2018, all provincial local tax bureaus (LTBs) were officially merged into the State Tax Bureaus (STBs). This signals a crucial step in the tax administration reform. According to the reform plan, the merger of LTBs and STBs below provincial level was to be completed before the end of July 2018.

Prior to that, the State Administration of Taxation (SAT) has issued [Shui Zong Fa \[2018\] No. 68](#) and [SAT Announcement \[2018\] No. 32](#), clarifying certain matters in the transition period, such as:

- The duties of pre-merger STBs and LTBs are carried over to the newly-merged tax bureaus;
- VAT invoices that have been printed by pre-merger provincial STBs and LTBs can be used until 31 December 2018.

Reference: SAT
Announcement [2018] No. 28

Issuance date: 6 June 2018
Effective date: 1 July 2018

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

Potential impacts on businesses:

- Certainty increased

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

Supporting documents for CIT deduction clarified

On 6 June 2018, SAT issued [Announcement \[2018\] No. 28](#) ("Announcement 28"), setting out the supporting document requirements for corporate income tax (CIT) deduction purposes. Previously, China had no specific rules to regulate which supporting documents in-charge tax authorities could demand. While there are certain relevant stipulations in the Tax Collection and Administration Law, the Administrative Measures for Invoices, and their implementation rules, many disputes over what constituted adequate documentation arose between tax authorities and taxpayers in practice. As such, the new guidance aims to increase certainty for enterprises.

Announcement 28 applies from 1 July 2018, clarifying the following:

Applicable scope	<ul style="list-style-type: none"> Announcement 28 applies to resident and non-resident enterprises as defined under the CIT law and its implementation rules.
Supporting documents	<ul style="list-style-type: none"> Supporting documents are classified, based on their source, as “internal” or “external” documents: <ul style="list-style-type: none"> ➤ Internal documents include accounting vouchers that are used for recording enterprise costs, expenses, losses and other expenditures, such as payroll sheets. ➤ External documents include payment vouchers obtained from other enterprises or individuals such as invoices (including e-invoices), receipts from government authorities, tax payment receipts, receipt evidences and allocation forms for expenses. It should be noted that the external documents, as defined here, are the most crucial for claiming CIT deductions under the new guidance. Announcement 28 clarifies that enterprises are usually required to obtain eligible supporting documents when payments occur, except in the following circumstances: <ul style="list-style-type: none"> ➤ In some cases that taxpayers need to ask other enterprises / individuals to retrospectively issue or re-issue the eligible supporting documents, then the time limit to obtain the eligible supporting document can be extended to before the end of annual CIT filing deadline (i.e., 31st May). This means that taxpayers can claim CIT deductions in their tax returns if the eligible supporting document are made available before 31st May. Announcement 28 clarifies that taxpayers are required to ensure the authenticity, legality and relevance of supporting documents. It also clarifies that certain documents, such as contracts/agreements, written judgments for paying liquidated damages, do not fall under the scope of supporting documents for CIT deduction purposes. However, these documents are closely related to enterprises’ business activities and can be used to prove the authenticity of the supporting documents in case of future audit.
Tax relevance of external documents	<ul style="list-style-type: none"> Announcement 28 clarifies that enterprise expenditures are allowed to be deducted for CIT purposes if eligible invoices or other external supporting documents are obtained within the prescribed timeframe. For eligible invoices or other external supporting documents that should be obtained but have not yet been obtained, Announcement 28 sets out the following guidance: <ul style="list-style-type: none"> ➤ Before annual CIT filing deadline: where the eligible supporting documents can be obtained before the deadline, relevant expenditures are allowed to be deducted. Otherwise, no deduction is allowed in the absence of any supporting documents.

Tax relevance of external documents (cont'd)

➤ After annual CIT filing deadline:

- ❑ For enterprises that did not claim any deductions in the absence of any supporting documents, such expenditures can be deducted retroactively upon receipt of the eligible invoices or external documents in the subsequent years. The deduction must be made in the year in which the expenditure occurred, but the retroactive deduction may not be claimed once five years have passed (e.g. for an expenditure which incurred in 2018, the supporting documents must be obtained by 2023 at the latest).
- ❑ For enterprises that have claimed the CIT deduction in the absence of any supporting documents, and this is detected by the tax authorities, the tax authorities shall request the enterprises to obtain the eligible invoices or supporting documents within 60 days. If an enterprise obtains the eligible invoices or supporting documents within the prescribed timeframe, the expenditures are allowed to be deducted in the year in which such expenditures occurred. Otherwise, deductions for such expenditures incurred in that year will be disallowed and the taxpayer would not be able to make any deduction claims retrospectively.

It should be noted that, if a tax deduction is claimed for a tax period without having the necessary supporting documents, the tax authorities will determine, on audit, that tax was underpaid. Late payment surcharge could be imposed on the underpaid tax. This would be the case even where taxpayers can obtain the eligible supporting documents within 60 days from being notified by the authorities.

Reference: SAT
Announcement [2018] No.
30

Issuance date: 11 June
2018

Effective date: 1 July 2018

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

Potential impacts on
businesses:

- Actual tax burden
reduced

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

Implementation rules for IIT incentives for scientific and technical staff

In May 2018, the Ministry of Finance (MOF), SAT and Ministry of Science and Technology (MOST) jointly issued [Cai Shui \[2018\] No. 58](#) ("Circular 58"), setting out preferential individual income tax (IIT) treatment for scientific and technical staff. Effective from 1 July 2018, only 50% of cash rewards received by the staff are taxed as wages and salaries and the remaining 50% of the cash rewards are exempted from IIT (see KPMG [China Tax Weekly Update \(Issue 22, June 2018\)](#) for details).

To complement this, on 11 June 2018, the SAT issued [SAT Announcement \[2018\] No. 30](#) ("Announcement 30") to clarify the implementation of the preferential IIT treatment.

Announcement 30 also applies from 1 July, providing the following clarifications:

- According to Circular 58, cash rewards refer to cash paid to staff, within 36 months of non-profit research institutions or universities obtaining income generated from the monetization of scientific and technical breakthroughs. The “within 36 months” kicks in on the day in which the non-profit research institutions or universities receive the income generated from the monetization of the scientific and technical breakthroughs.
- According to Circular 58, a recordal filing with tax authorities is required when cash rewards are paid to scientific and technical staff. Announcement 30 further clarifies that a recordal filing form must be submitted to the tax authority before the 15th day of the following month when the cash rewards are actually paid. In case of future audit, taxpayers should maintain other evidential documents such as local MOST-registered technology contracts.

Reference: SAT
Announcement [2018] No. 29

Issuance date: 11 June 2018

Effective date: 1 August or 1 October 2018

Relevant industries: All
Relevant companies: All
Relevant taxes: VAT

Potential impacts on businesses:

- Operational costs reduced

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

New rules on requesting VAT invoices by new taxpayers

On 11 June 2018, the SAT issued [Announcement \[2018\] No. 29](#) (“Announcement 29”) which sets out new rules for the initial confirmation by a new taxpayer, with its in-charge tax authority, of the arrangements under which it will issue VAT invoices. These include (i) determining the types of invoices that the taxpayer will issue; (ii) approving the maximum limits for issuing special VAT invoices; (iii) initializing the special equipment for the VAT control system; (iv) request for invoices, etc.

Announcement 29 shall apply from 1 August 2018 nationwide, except for Xinjiang, Qinghai and Tibet, for which it will apply from 1 October 2018. Specifically, Announcement 29 clarifies the following:

- For new taxpayers who are confirming the matters listed above, with their in-charge tax authorities, the authorities are required to accept and approve the application within 2 working days (currently in some region this requires 20 working days), if the new taxpayers meet all the following conditions:
 - Identity documents of tax handlers or legal representative of the taxpayers have been identified by tax authorities;
 - The taxpayers who apply for VAT invoices for business demands; and
 - The taxpayers have obtained tax control systems.

For certain tax authorities with capabilities, Announcement 29 also requires them to accept and approve the application on the same day upon receipt of the application.
- In relation to the maximum invoicing amount and invoice quotas, Announcement 29 clarifies that:
 - For special VAT invoices: The maximum invoicing amount will be RMB100,000 and the quotas for requesting for each month must not exceed 25 copies.
 - For ordinary VAT invoices: The maximum invoicing amount will be RMB100,000 and the quotas for requesting for each month must not exceed 50 copies.

Other recent regulatory and tax circulars:

- ❑ The State Council approves to deepen the pilot program of service trade innovation development zones (Guo Han [2018] No. 79, issued on 8 June 2018)
- ❑ China-Sweden DTA comes into effect (SAT Announcement [2018] No. 27, issued on 5 June 2018)

创新赋能
税道渠成

Contact Us

China



Lewis Lu

Head of Tax
KPMG China
Tel: +86 (21) 2212 3421
Email: lewis.lu@kpmg.com

Northern China



Vincent Pang

Head of Tax, Northern China
KPMG China
Tel: +86 (10) 8508 7516
Email: vincent.pang@kpmg.com

Central China



Anthony Chau

Head of Tax, Central China
KPMG China
Tel: +86 (21) 2212 3206
Email: anthony.chau@kpmg.com

Southern China



Lilly Li

Head of Tax, Southern China
KPMG China
Tel: +86 (20) 3813 8999
Email: lilly.li@kpmg.com



Curtis Ng

Head of Tax, Hong Kong SAR
KPMG China
Tel: +852 2143 8709
Email: curtis.ng@kpmg.com

Hong Kong SAR

KPMG China Tax Centre



Conrad Turley

Tax Director
KPMG China Tax Centre
Tel: +86 (10) 8508 7513
Email: conrad.turley@kpmg.com



Carol Cheng

Senior Manager
KPMG China Tax Centre
Tel: +86 (10) 8508 7644
Email: carol.y.cheng@kpmg.com

For any enquiries, please send to our public mailbox: taxenquiry@kpmg.com or contact our partners/directors in each China/HK offices.

Khoonming Ho
Head of Tax,
KPMG Asia Pacific
Tel. +86 (10) 8508 7082
khoonming.ho@kpmg.com

Lewis Lu
Head of Tax,
KPMG China
Tel. +86 (21) 2212 3421
lewis.lu@kpmg.com

**Beijing/Shenyang/Qingdao
Vincent Pang**
Tel. +86 (532) 8907 1728
vincent.pang@kpmg.com

**Tianjin
Eric Zhou**
Tel. +86 (10) 8508 7610
ec.zhou@kpmg.com

**Shanghai/Nanjing/Chengdu
Anthony Chau**
Tel. +86 (21) 2212 3206
anthony.chau@kpmg.com

**Hangzhou
John Wang**
Tel. +86 (571) 2803 8088
john.wang@kpmg.com

**Guangzhou
Lilly Li**
Tel. +86 (20) 3813 8999
lilly.li@kpmg.com

**Fuzhou/Xiamen
Maria Mei**
Tel. +86 (592) 2150 807
maria.mei@kpmg.com

**Shenzhen
Eileen Sun**
Tel. +86 (755) 2547 1188
eileen.gh.sun@kpmg.com

**Hong Kong
Karmen Yeung**
Tel. +852 2143 8753
karmen.yeung@kpmg.com

Northern China

Vincent Pang
Head of Tax,
Northern Region
Tel. +86 (10) 8508 7516
+86 (532) 8907 1728
vincent.pang@kpmg.com

Cheng Chi
Tel. +86 (10) 8508 7606
cheng.chi@kpmg.com

Conrad TURLEY
Tel. +86 (10) 8508 7513
conrad.turley@kpmg.com

Milano Fang
Tel. +86 (532) 8907 1724
milano.fang@kpmg.com

Tony Feng
Tel. +86 (10) 8508 7531
tony.feng@kpmg.com

Flora Fan
Tel. +86 (10) 8508 7611
flora.fan@kpmg.com

John Gu
Tel. +86 (10) 8508 7095
john.gu@kpmg.com

Rachel Guan
Tel. +86 (10) 8508 7613
rachel.guan@kpmg.com

Helen Han
Tel. +86 (10) 8508 7627
h.han@kpmg.com

Michael Wong
Tel. +86 (10) 8508 7085
michael.wong@kpmg.com

Josephine Jiang
Tel. +86 (10) 8508 7511
josephine.jiang@kpmg.com

Henry Kim
Tel. +86 (10) 8508 5000
henry.kim@kpmg.com

David Ling
Tel. +86 (10) 8508 7083
david.ling@kpmg.com

Li Li
Tel. +86 (10) 8508 7537
li.li@kpmg.com

Lisa Li
Tel. +86 (10) 8508 7638
lisa.h.li@kpmg.com

Larry Li
Tel. +86 (10) 8508 7658
larry.y.li@kpmg.com

Lucia Liu
Tel. +86 (10) 8508 7570
lucia.ji.liu@kpmg.com

Alan O'Connor
Tel. +86 (10) 8508 7521
alan.oconnor@kpmg.com

Shirley Shen
Tel. +86 (10) 8508 7586
yinghua.shen@kpmg.com

Joseph Tam
Tel. +86 (10) 8508 7605
laiyi.tam@kpmg.com

Joyce Tan
Tel. +86 (10) 8508 7666
joyce.tan@kpmg.com

Cynthia Xie
Tel. +86 (10) 8508 7543
cynthia.py.xie@kpmg.com

Christopher Xing
Tel. +86 (10) 8508 7072
christopher.xing@kpmg.com

Irene Yan
Tel. +86 (10) 8508 7508
irene.yan@kpmg.com

Adams Yuan
Tel. +86 (10) 8508 7596
adams.yuan@kpmg.com

Jessie Zhang
Tel. +86 (10) 8508 7625
jessie.j.zhang@kpmg.com

Sheila Zhang
Tel. +86 (10) 8508 7507
sheila.zhang@kpmg.com

Tiansheng Zhang
Tel. +86 (10) 8508 7526
tiansheng.zhang@kpmg.com

Tracy Zhang
Tel. +86 (10) 8508 7509
tracy.h.zhang@kpmg.com

Eric Zhou
Tel. +86 (10) 8508 7610
ec.zhou@kpmg.com

Vivian Zhou
Tel. +86 (10) 8508 3360
v.zhou@kpmg.com

Central China

Anthony Chau
Head of Tax,
Eastern & Western Region
Tel. +86 (21) 2212 3206
anthony.chau@kpmg.com

Yasuhiko Otani
Tel. +86 (21) 2212 3360
yasuhiko.otani@kpmg.com

Johnny Deng
Tel. +86 (21) 2212 3457
johnny.deng@kpmg.com

Cheng Dong
Tel. +86 (21) 2212 3410
cheng.dong@kpmg.com

Chris Ge
Tel. +86 (21) 2212 3083
chris.ge@kpmg.com

Chris Ho
Tel. +86 (21) 2212 3406
chris.ho@kpmg.com

Henry Wong
Tel. +86 (21) 2212 3380
henry.wong@kpmg.com

Jason Jiang
Tel. +86 (21) 2212 3527
jason.jt.jiang@kpmg.com

Sunny Leung
Tel. +86 (21) 2212 3488
sunny.leung@kpmg.com

Michael Li
Tel. +86 (21) 2212 3463
michael.y.li@kpmg.com

Karen Lin
Tel. +86 (21) 2212 4169
karen.w.lin@kpmg.com

Benjamin Lu
Tel. +86 (21) 2212 3462
benjamin.lu@kpmg.com

Christopher Mak
Tel. +86 (21) 2212 3409
christopher.mak@kpmg.com

Naoko Hirasawa
Tel. +86 (21) 2212 3098
naoko.hirasawa@kpmg.com

Ruqiang Pan
Tel. +86 (21) 2212 3118
ruqiang.pan@kpmg.com

Amy Rao
Tel. +86 (21) 2212 3208
amy.rao@kpmg.com

Wayne Tan
Tel. +86 (28) 8673 3915
wayne.tan@kpmg.com

Tanya Tang
Tel. +86 (25) 8691 2850
tanya.tang@kpmg.com

Rachel Tao
Tel. +86 (21) 2212 3473
rachel.tao@kpmg.com

Janet Wang
Tel. +86 (21) 2212 3302
janet.z.wang@kpmg.com

John Wang
Tel. +86 (571) 2803 8088
john.wang@kpmg.com

Mimi Wang
Tel. +86 (21) 2212 3250
mimi.wang@kpmg.com

Jennifer Weng
Tel. +86 (21) 2212 3431
jennifer.weng@kpmg.com

Grace Xie
Tel. +86 (21) 2212 3422
grace.xie@kpmg.com

Bruce Xu
Tel. +86 (21) 2212 3396
bruce.xu@kpmg.com

Jie Xu
Tel. +86 (21) 2212 3678
jie.xu@kpmg.com

Robert Xu
Tel. +86 (21) 2212 3124
robert.xu@kpmg.com

Jason Yu
Tel. +86 (21) 2212 3316
jjm.yu@kpmg.com

William Zhang
Tel. +86 (21) 2212 3415
william.zhang@kpmg.com

Hanson Zhou
Tel. +86 (21) 2212 3318
hanson.zhou@kpmg.com

Michelle Zhou
Tel. +86 (21) 2212 3458
michelle.b.zhou@kpmg.com

Eric Zhang
Tel. +86 (21) 2212 3398
eric.z.zhang@kpmg.com

Kevin Zhu
Tel. +86 (21) 2212 3346
kevin.x.zhu@kpmg.com

Southern China

Lilly Li
Head of Tax,
Southern Region
Tel. +86 (20) 3813 8999
lilly.li@kpmg.com

Vivian Chen
Tel. +86 (755) 2547 1198
vivian.w.chen@kpmg.com

Nicole Cao
Tel. +86 (20) 3813 8619
nicole.cao@kpmg.com

Sam Fan
Tel. +86 (755) 2547 1071
sam.kh.fan@kpmg.com

Joe Fu
Tel. +86 (755) 2547 1138
joe.fu@kpmg.com

Ricky Gu
Tel. +86 (20) 3813 8620
ricky.gu@kpmg.com

Fiona He
Tel. +86 (20) 3813 8623
fiona.he@kpmg.com

Angie Ho
Tel. +86 (755) 2547 1276
angie.ho@kpmg.com

Aileen Jiang
Tel. +86 (755) 2547 1163
aileen.jiang@kpmg.com

Cloris Li
Tel. +86 (20) 3813 8829
cloris.li@kpmg.com

Jean Li
Tel. +86 (755) 2547 1128
jean.j.li@kpmg.com

Sisi Li
Tel. +86 (20) 3813 8887
sisi.li@kpmg.com

Mabel Li
Tel. +86 (755) 2547 1164
mabel.li@kpmg.com

Kelly Liao
Tel. +86 (20) 3813 8668
kelly.liao@kpmg.com

Patrick Lu
Tel. +86 (755) 2547 1187
patrick.c.lu@kpmg.com

Grace Luo
Tel. +86 (20) 3813 8609
grace.luo@kpmg.com

Ling Lin
Tel. +86 (755) 2547 1170
ling.lin@kpmg.com

Maria Mei
Tel. +86 (592) 2150 807
maria.mei@kpmg.com

Chris Xiao
Tel. +86 (755) 3813 8630
chris.xiao@kpmg.com

Eileen Sun
Tel. +86 (755) 2547 1188
eileen.gh.sun@kpmg.com

Michelle Sun
Tel. +86 (20) 3813 8615
michelle.sun@kpmg.com

Bin Yang
Tel. +86 (20) 3813 8605
bin.yang@kpmg.com

Lixin Zeng
Tel. +86 (20) 3813 8812
lixin.zeng@kpmg.com

Nicole Zhang
Tel. +86 (20) 3813 8644
nicole.ll.zhang@kpmg.com

Hong Kong

Curtis Ng
Head of Tax, Hong Kong
Tel. +852 2143 8709
curtis.ng@kpmg.com

Ayesha M. Lau
Tel. +852 2826 7165
ayasha.lau@kpmg.com

Chris Abbiss
Tel. +852 2826 7226
chris.abbiss@kpmg.com

Darren Bowdern
Tel. +852 2826 7166
darren.bowdern@kpmg.com

Yvette Chan
Tel. +852 2847 5108
yvette.chan@kpmg.com

Lu Chen
Tel. +852 2143 8777
lu.l.chen@kpmg.com

Wade Wagatsuma
Tel. +852 2685 7806
wade.wagatsuma@kpmg.com

Natalie To
Tel. +852 2143 8509
natalie.to@kpmg.com

Elizabeth DE LA CRUZ
Tel. +852 2826 8071
elizabeth.delacruz@kpmg.com

Matthew Fenwick
Tel. +852 2143 8761
matthew.fenwick@kpmg.com

Sandy Fung
Tel. +852 2143 8821
sandy.fung@kpmg.com

Charles Kinsley
Tel. +852 2826 8070
charles.kinsley@kpmg.com

Stanley Ho
Tel. +852 2826 7296
stanley.ho@kpmg.com

Becky Wong
Tel. +852 2978 8271
becky.wong@kpmg.com

Barbara Forrest
Tel. +852 2978 8941
barbara.forrest@kpmg.com

John Kondos
Tel. +852 2685 7457
john.kondos@kpmg.com

Kate Lai
Tel. +852 2978 8942
kate.lai@kpmg.com

Travis Lee
Tel. +852 2143 8524
travis.lee@kpmg.com

Irene Lee
Tel. +852 2685 7372
irene.lee@kpmg.com

Alice Leung
Tel. +852 2143 8711
alice.leung@kpmg.com

Ivor Morris
Tel. +852 2847 5092
ivor.morris@kpmg.com

Benjamin Pong
Tel. +852 2143 8525
benjamin.pong@kpmg.com

Malcolm Prebble
Tel. +852 2684 7472
malcolm.j.prebble@kpmg.com

David Siew
Tel. +852 2143 8785
david.siew@kpmg.com

Murray Sarelus
Tel. +852 3927 5671
murray.sarelus@kpmg.com

John Timpany
Tel. +852 2143 8790
john.timpany@kpmg.com

Lachlan Wolfers
Tel. +852 2685 7791
lachlan.wolfers@kpmg.com

Daniel Hui
Tel. +852 2685 7815
daniel.hui@kpmg.com

Karmen Yeung
Tel. +852 2143 8753
karmen.yeung@kpmg.com

Erica Chan
Tel. +852 3927 5572
erica.chan@kpmg.com