KPMG

China Tax Weekly Update

ISSUE 25 | June 2018

Reference: N/A
Issuance date: 19 June 2018
Effective date: N/A

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

Potential impacts on businesses:

- Operational costs reduced

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

Proposed amendments to China Individual Income Tax

In the course of the March 2018 meetings of China's 13th National People's Congress (NPC), the Ministry of Finance (MOF) had committed to reform the individual income tax (IIT) system. The plans included: (i) raising the entry income threshold for imposition of IIT; (ii) enhancing deductions for children's education and other personal outlays; and (iii) transitioning to consolidated IIT calculations and filings (in place of the current scheduler system). It was indicated that salaries and wages, and independent service income, would be consolidated for tax calculation purposes (see KPMG *China Tax Weekly Update (Issue 10, March 2018)* for details).

On 19 June 2018, the proposed amendments to China's IIT law ("draft IIT bill") was deliberated at the third session of the 13th NPC. It should be noted that it has not yet been adopted by the NPC.

Mr. Liu Kun, the Minister of Finance, outlined the key amendments in the draft IIT bill as follows:

- **New tax resident rule**: Foreign nationals are currently treated as Chinese tax residents after one year of continuous presence in China. A foreign national with a continuous absence of 30 days in a tax year, or non-continuous absences of 90 days in a tax year, would not be regarded as a tax resident. As a non-resident, a foreign national is only subject to IIT on its China-sourced income. This is complemented by a further special concession, set out in the implementation rules of the IIT law rather than the law itself, under which foreign nationals working in China will only be subject to IIT on their worldwide income after 5 years of continuous residence in China. It is now proposed that the one year test will be lowered to 183 days, and the five year concession may be abolished; the latter point is yet to be confirmed. These changes would have significant implications for the taxation of the income of foreign nationals, sourced outside China. In particular, if the five year concession is abolished and a foreign national meets the 183 days presence test, then he would be subject to China IIT on his worldwide income.

- **Consolidated taxation of earned income**: Four categories of income, covering salaries and wages, professional services, author's remuneration and royalties, will be consolidated and subject to progressive tax rates. Tax residents will transition from monthly filing to annual filing for such income. Existing categories of business income will be incorporated into this comprehensive income category, or a new 'income from operations' category, depending on their nature. Income from operations, interest income, dividends, leasing income, asset transfer gains, and other income will still be taxed separately, on a monthly basis, at separately prescribed rates.

- **Adjustment to income tax brackets:** Comprehensive income is to be subject to the already existing progressive tax rates of 3% to 45%, though the seven brackets are now calculated on an annual as opposed to monthly basis. To relieve burdens on low earners, the 3%, 10% and 20% brackets are widened, and the 25% bracket is narrowed. The subsequent 30%, 35% and 45% brackets kick in at the same income levels as before. 'Income from operations' will, as at present, be subject to progressive tax rates from 5% to 35%, though low earners are supported, with entry to the 35% bracket now starting at RMB500,000 rather than the current RMB100,000.
- **Enhanced tax deductions:** The personal deduction, taken against comprehensive income, will now rise to RMB5,000 per month from RMB3,500 for Chinese nationals and RMB4,800 for foreign nationals, as at present. There are also an increased number of deductions to reflect personal circumstances including expenditures on dependent children's education, continuing education, serious illness medical treatment, housing mortgage interest and rentals. These complement the existing deductions for social security contributions (which cover basic pension insurance, basic medical insurance, unemployment insurance, and housing fund contributions). They also complement the more recent deductions provided for private health insurance and pension insurance. The latter one is still being piloted.
- **Introduction of general anti-avoidance rules (GAAR):** Such rules, modelled on those in the corporate income tax (CIT) law, would allow the tax authorities to adjust taxable income relating to asset transfers not at arm's length, avoidance using offshore tax havens, and other artificial tax-motivated arrangements.

The upshot of the proposed changes is to reduce the tax burden on lower earners, reduce the relative preferences for foreign nationals under the existing IIT law, give greater recognition to personal circumstances and expenses in the IIT calculation, and introduce anti-avoidance provisions.

For detailed analysis of the draft bill, please read the following KPMG publication:

- ❑ *China Tax Alert: PRC Individual income tax reform – Release of the proposed amendments (Issue 14, June 2018)*

Reference: Guo Fa [2018] No. 19
Issuance date: 15 June 2018
Effective date: 15 June 2018

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

Potential impacts on businesses:
- Operational costs reduced
- Restriction on foreign investment may be lowered

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

Further guidance on attracting foreign investment

In 2017, the Chinese government set out string of measures under Guo Fa [2017] No. 5 and No. 39 to boost foreign investment in China (see KPMG *China Tax Weekly Update (Issue 4, January 2017)* and *(Issue 33, August 2017)* for details). In April 2018, Chinese President Xi Jinping also indicated that China will further open up the economy with new measures to include (i) broader market access and (ii) more attractive investment environment (see KPMG *China Tax Weekly Update (Issue 15, April 2018)*). To give effect to these plans, the State Council issued Guo Fa [2018] No. 19 ("Circular 19") on 15 June 2018.

Circular 19 sets out 23 measures; those of tax and finance relevance include:

Broaden market access	• Introduce revised "negative lists" for foreign investment, separately for nationwide coverage and for pilot free trade zones (FTZs), by 1 July 2018 (the current nationwide and FTZ negative lists were all issued in 2017, see KPMG *China Tax Weekly Update (Issue 26, July 2017)* and *(Issue 25, June 2017)* for details). • Relax restrictions for establishment of foreign-invested financial institutions and expand their scope of allowable businesses. • Improve the rules for qualified foreign institutional investors (QFII) and RMB qualified foreign institutional investors (RQFII). • Promote the development of the crude oil futures market and encourage qualified foreign investors to participate in trading of certain futures products, such as for iron ore. • Encourage qualified Chinese enterprises to be listed abroad. Give more support to foreign-invested financial institutions to underwrite local government bonds. • Eliminate/ease restrictions on foreign investment in China in certain industries such as transportation, trade logistics, and professional services. • Sectors such as telecommunication, culture, tourism will incrementally be opened up in the pilot FTZs . • Eliminate/ease the restrictions on foreign investment in China in certain sectors such as agriculture, mining (e.g. coal and non-metal) and manufacturing (e.g. automotive, shipbuilding and aviation).
Improve administration for foreign investment	• Foreign-invested enterprises (FIEs), with total China investment amount falling below US$1 billion, and which fall within the "negative list", will have their establishment approvals, and changes to their operational remit, conducted by the provincial governments rather than the central government Ministry of Commerce (MOFCOM) as at present. Establishment of FIEs with a China investment amount exceeding US$1 billion, will still be subject to central MOFCOM approvals.

Streamline administration and governmental services for foreign investment (cont'd)	• Simplify cash pooling administration, such as (i) relaxing filing requirements in the pilot program for eligible multinational enterprises (MNEs) to have greater flexibility in managing their foreign currency capital in China; (ii) give support to MNEs to provide two-way cross-border RMB cash pooling services. • Simplify permit procedures for foreign skilled people to work in China and to get their visas.
Enhance foreign investment promotion	• Encourage foreign investors to invest in Hainan Free Trade Port. • Encourage foreign investment in the modern agriculture, ecological development, advanced manufacturing, modern service sectors, and in Central and Western China. • Put supporting policies for foreign-invested R&D centres in place, improving the recognition criterion for the centres, and encouraging FIEs to increase their R&D efforts in China. • Allow eligible foreign individual investors to make investments in listed companies in China. • Allow foreign investors to make investments in companies listed on the National Equities Exchange and Quotations (NEEQ) system. • Improve scrutiny system for state-owned equities in listed companies. Provide equal opportunities for Chinese and foreign investors to participate in State-owned enterprises (SOEs) reform. • Drive negotiation of bilateral social security agreements between China and other countries. • Encouraging local governments to provide funds support to attract foreign investment. Local governments are allowed to (i) set preferential policies to support foreign-invested projects within their areas; (ii) make awards to FIEs and highly skilled foreign nationals who made significant contributions to socio-economic development.

Circular 19 also provides guidance on the following:

- Improving investor protection to build a high-standard investment environment;
- Optimizing regional investment distribution and guiding foreign investment in Central and Western China;
- Promoting development of national development zones, and effectively utilizing foreign investment.

Reference: GAC Announcement [2018] No. 59
Issuance date: 21 June 2018
Effective date: 21 June 2018

Relevant industries: Processing trade
Relevant companies: Enterprises engaged in processing trade
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.

Simplified customs supervision for processing trade

Prior to 1 August 2017, the process trade business was supervised by China Customs on a contract-by-contract basis. Under this supervision approach, enterprises engaged in the processing trade were required to set up a handbook for each processing trade contract and make recordal filings with customs offices. In some cases, an enterprise may need to set up dozens of handbooks in one year. Once a contract is completed, the enterprise is also required to go back to the customs office for deregistering the contract. This creates a heavy workload for both the customs offices and enterprises.

To address this, the General Administration of Customs (GAC), from 1 August 2017, piloted a new customs supervision approach for the processing trade in nine customs offices. This included Tianjin, Shenyang, Nanjing, Hangzhou, Wuhan, Gongbei, Huangpu, Chongqing and Chengdu. Later, this was extended to cover an additional 26 Customs offices from 5 March 2018.

On 21 June 2018, the General Administration of Customs (GAC) issued Announcement [2018] No. 59 ("Announcement 59"). This further extends the new customs supervision approach nationwide, effective from date of issuance.

Under the new method, process trade businesses will be supervised on an 'enterprise basis', as opposed to the former 'contract-by-contract basis'. This means that:

- An enterprise is only required to set up one electronic account book to manage its processing trade activities. The account book, when set up, will refer to the HS codes of the products that the enterprise is processing, or the relevant product numbers.
- The enterprise can set the timeframe for periodic declaration with customs offices based on the timeframe of its production cycle. For production cycles exceeding one year, the enterprise is required to make a declaration with the customs offices on an annual basis. Under the old method, the declaration period will be determined based on term of contract for a maximum period of one year. Any extension was also restricted to one year.
- Goods receipts and shipping records will no longer be required to be sent to Customs offices, but need to be kept on file at the enterprise in case of audit.

With regard to the detailed analysis of Announcement 59, please read KPMG *China Tax Alert (Issue 15, June 2018)* for details.

Other recent regulatory and tax circulars:

- China to impose additional tariff on US$50 billion of US imported goods (Shui Wei Hui Announcement [2018] No. 5, issued on 16 June 2018)
- Notice on preferential urban and township land use tax treatment on land rented by logistics enterprises for bulk commodity warehousing facilities (Cai Shui [2018] No. 62, issued on 1 June 2018)

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

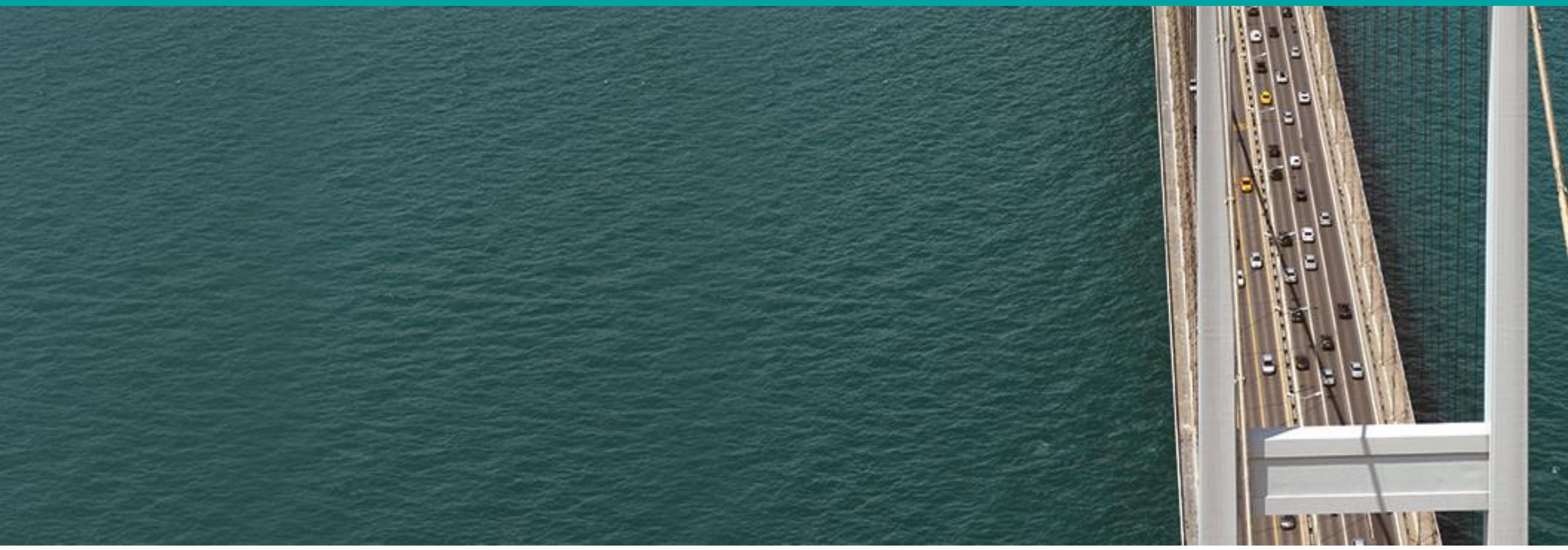
Hong Kong SAR

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

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



KPMG

Contact Us

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.jj.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
laiyiu.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
ayesha.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 Sarelius
Tel. +852 3927 5671
murray.sarelius@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

Adam Zhong
Tel. +852 2685 7559
adam.zhong@kpmg.com

Eva Chow
Tel. +852 2685 7454
eva.chow@kpmg.com

Alexander ZEGERS
Tel. +852 2143 8796
zegers.alexander@kpmg.com

kpmg.com/cn