



Corporate Income Tax incentives for western regions extended by ten more years

Regulation discussed in this issue:

- Notice on tax policies in relation to further implementation of the western development strategy, Cai Shui [2011] No.58, issued by the Ministry of Commerce, General Administration of Customs, State Administration of Taxation on 27 July 2011, effective from 1 January 2011

Background

The Ministry of Finance, the General Administration of Customs and the State Administration of Taxation jointly issued Cai Shui [2011] No. 58 (Circular 58) on 27 July 2011, setting out the Corporate Income Tax (CIT) and import duty incentives available for enterprises in the western regions. The key message of Circular 58 is that the incentives contained in Cai Shui [2001] No. 202 (Circular 202) and various follow-up circulars will basically continue to apply.

The CIT incentives stipulated in Circular 202 came to an end on 31 December 2010. Circular 58 will pick up where Circular 202 left off, taking effect from 1 January 2011 to 31 December 2020.

The tax incentives as stipulated in Circular 58 are summarised in the table below:

Type of tax	Type of project / enterprise	Other conditions	Period	Tax benefits
Customs Duty	Western region's (Note 1) encouraged type (Note 2) projects of domestic and foreign investments and projects of advantageously positioned industries	Equipment imported within quota of the total investment for self use	Starting from 1 January 2011	Exempt from import duty
CIT	Western region's (Note 1) encouraged type (Note 2) enterprises	N/A	From 1 January 2011 to 31 December 2020	15 percent reduced CIT rate
	Western region's (Note 1) enterprises newly established on or prior to 31 December 2010 and engaged in transportation, electric power, water conservation, postal services and TV broadcasting (Note 3)	N/A	Starting from 1 January 2011	Continue to enjoy "2+3 tax holiday" until expiry

Notes:

1. Western regions include Chongqing, Sichuan Province, Guizhou Province, Yunnan Province, Tibet Autonomous Zone, Shaanxi Province, Gansu Province, Ningxia Hui Autonomous Zone, Qinghai Province, Xinjiang Uygur Autonomous Zone, Xinjiang Production and Construction Corps, Inner Mongolia Autonomous Zone and Guangxi Zhuang Autonomous Zone. The preferential policies for western regions shall also be applied to Xiangxi Tujia and Miao Autonomous Prefecture in Hunan Province, Enshi Tujia and Miao Autonomous Prefecture in Hubei Province and Yanbian Korean Autonomous Prefecture in Jilin Province.
2. "Encouraged type enterprise" refers to enterprises whose main business falls within the scope of "Catalogue of *Encouraged Type Industries in Western Regions*" ("the Catalogue"). Such enterprises shall derive 70 percent or more of its total revenue from its main business. The Catalogue will be issued separately.
3. These enterprises are eligible for "2+3 tax holiday" in accordance with Paragraph three of Article 2 in Circular 202.

KPMG observations

The 12th Five-Year-Plan approved by the National People's Congress this March highlights coordinated regional development and one of the important measures to achieve this objective is the further implementation of the strategy of large-scale development of the western regions. The CIT incentives stipulated in Circular 202 have already expired. Although Circular Guo Fa [2010] No. 9, issued by the State Council, has provided that CIT incentives that were previously available to qualified domestic enterprises and foreign investment enterprises in the western regions shall continue to be effective, the departments in charge of finance and taxation have not issued detailed implementation measures. The issuance of Circular 58 eliminates uncertainties in this regard and should be good news to taxpayers.

A qualified taxpayer can adopt the 15 percent tax rate for CIT filings for the third quarter of 2011 and onwards in accordance with Circular 58. Where the taxpayer has filed its quarterly CIT returns using a 25 percent tax rate for the first two quarters of 2011 due to regulatory uncertainties at that time, it may consider applying with the tax authority in charge for a refund of the overpaid tax or a credit of the overpaid tax against its CIT liability in the future.

In addition, we understand the National Development and Reform Commission is now taking the lead in producing the Catalogue. We suggest that businesses monitor the regulatory development in this regard and, if necessary, enter into a dialogue with the relevant government authorities in respect of the implications of the new policy for its industry in a timely manner.

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