



## Business Tax on bond trading

### Regulations discussed in this issue

- “State Administration of Taxation Announcement on Business Tax Treatment on Trading of Bonds”, SAT Announcement [2014] No. 50, issued on 28 August 2014
- “Ministry of Finance, State Administration of Taxation Notice on Several Policy Issues on Business Tax”, Circular Caishui [2003] No. 16, issued on 15 January 2003
- “Regulation of the People’s Republic of China on Treasury Bonds”, Decree of the State Council No. 95, issued on 18 March 1992; amended by Decree of the State Council No. 588 “State Council Decision on the Abolishment and Amendment of Certain Administrative Regulations”, issued on 8 January 2011

On 28 August 2014, the State Administration of Taxation (“SAT”) promulgated SAT Announcement [2014] No. 50 “Business Tax Treatment on Trading of Bonds” (“the Announcement”). The Announcement clarifies the Business Tax treatment on bond trading. Previously, in practice, when bonds are disposed of before maturity, some taxpayers would pay Business Tax in accordance with the Circular Caishui [2003] No. 16 and effectively include the interest received within the holding period of the bonds in the taxable business turnover for Business Tax purposes, while other taxpayers would not include such income. The Announcement clarifies and reiterates that when bonds are disposed of before maturity, any proceeds (including interest) derived from the holding period should still be deducted from the purchase cost, thus effectively including this amount in the taxable turnover for Business Tax purposes.

It should be noted, however, that in accordance with the “Regulation of the People’s Republic of China on Treasury Bonds” issued by the State Council, the interest derived from treasury bonds should be exempted from tax. Therefore, the Business Tax treatment on the interest of treasury bonds when bonds are disposed of before maturity remains uncertain. The Announcement does not address this issue.

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