

China Tax Alert

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China (Tianjin) Pilot Free Trade Zone is officially launched

Regulations discussed in this issue:

- Overall plan for China (Tianjin) Pilot Free Trade Zone - *State Council Announcement [2015] No. 19*
- Special Administrative Measures for the Access of Foreign Investment in Pilot Free Trade Zones (Negative List) - *Guo Ban Fa [2015] No. 23*
- Administrative Measures of China (Tianjin) Pilot Free Trade Zone - *Jin Zheng Ling [2015] No. 15*

Background

With the release of the Overall Plan and Negative List to be universally applied in the four Free Trade Zones, China (Tianjin) Pilot Free Trade Zone ("Tianjin FTZ"), one of the regional free trade zones after Shanghai FTZ and the first FTZ in northern China, has been officially launched on 21st April 2014 with Guangdong FTZ and Fujian FTZ. Based on the Overall Plan and Negative List, Tianjin Municipal Government has introduced the Administrative Measures of Tianjin FTZ, providing operational guidelines for the formulation of specific measures of policy innovation and major reform of Tianjin FTZ.

The Features of Tianjin FTZ

In accordance with the Overall Plan and Administrative Measures of Tianjin FTZ, Tianjin FTZ will form its own development characteristics which may be different from Shanghai, Guangdong and Fujian, given its advantages in both administrative status and geographical position. It aims to:

- ❖ Commit to the coordinated development of the Beijing-Tianjin-Hebei region;
- ❖ Focus on developing the leasing industry; and
- ❖ Differentiate the functional orientation of three districts of Tianjin FTZ.

Committing to the coordinated development of the Beijing-Tianjin- Hebei region

The Overall Plan makes the integration of the Beijing-Tianjin-Hebei region one of its general requirements, which provide the guiding

ideology for the coordinated development of the region in its efforts to help the region become a new open-up engine, and translate Tianjin FTZ into a high-level open-up platform based on its strategic position. It also sets the overall objective that Tianjin FTZ shall play a leading role in the course of such development.

Such a feature is fully embodied in the main tasks and measures of the Overall Plan as a stand-alone task, where Tianjin FTZ is required to develop its comprehensive advantage as an open-up highland, promote the export-oriented business in the Beijing-Tianjin-Hebei region and build an open economic model in the region. Specifically:

- To expand the functional coverage of port services: improving the integration of customs clearance as well as inspection and quarantine clearance in the Beijing-Tianjin-Hebei region; further promoting the integration and development of the two ports of Tianjin and Hebei that have different focuses and can complement each other while optimising the industrial structure of the ports.
- To promote regional industrial restructuring and upgrading: establishing the market-oriented fund for industrial restructuring; promoting the synergy and cooperation in the Beijing-Tianjin-Hebei region in R&D, production and sales, logistics, and other areas.
- To facilitate the integration of regional financial market: strengthening the inter-connection of traditional trading markets in the Beijing-Tianjin-Hebei region and the cooperation of new markets on property rights, technology and emission rights, enabling effective and rational flow of various resources. Financial institutions in Tianjin FTZ are encouraged to further explore the innovation of financial products and management models which can benefit the coordinated development of Beijing-Tianjin-Hebei region.
- To promote technological innovation and build the talent pool serving regional development: encouraging co-financing of Beijing, Tianjin and Hebei governments, which will form a cooperative mechanism with various national capital funds, such as the National Venture Capital Fund for New Industries and the Fund for the Transformation of Scientific and Technological Achievements.

Focusing on developing the leasing industry

In addition to the policies already available in Shanghai FTZ, Tianjin FTZ will be the first free trade zone focused on the development of the leasing industry. The Overall Plan sets out the tasks on enhancing the innovation of the financial industry in Tianjin FTZ to promote policy innovation and create a good development environment with international standards for the leasing industry. Specifically:

- To unify access standards, approval processes and the supervision for domestic and foreign financial leasing companies. Domestic financial leasing companies registered in Tianjin FTZ under the approval of Tianjin commerce

authorities, will be eligible for the same treatment as their existing domestic counterparts.

- To promote innovation in the leasing industry and build a national demonstration area: establishing a fair developing environment with international standards for the leasing industry by encouraging the establishment of the China Institute of Financial Leasing and other research institutions. Tianjin FTZ is also encouraged to establish a Tianjin leasing platform and a nationwide leasing platform, and enforce the pilot program of lease asset registration, publicity and transfer.
- For financial leasing companies registered in the customs supervision area of Tianjin FTZ, which undertake the import and export of aircraft, ships, marine engineering structures and other large equipments, offsite customs supervision can be implemented based on their logistics needs, provided that they are under an effective customs supervision and tax compliance status.

Differentiating the functional orientation of three districts of Tianjin FTZ

Tianjin FTZ is located in the Binhai New Area of Tianjin covering an area of approximately 120 sq.km., which includes three districts, namely Tianjin Port District, Tianjin Airport District and Binhai Central Business District. Seen from the current status of existing industries as well as their complementary advantages, each of the three districts has its own merits to be harnessed into good functions in the future:

- Tianjin Port District aims at developing shipping and logistics, international trade, financial leases and other modern services;
- Tianjin Airport District aims at developing aerospace, equipment manufacturing, high-end manufacturing such as new information technology, R&D, and aviation-related services;
- Central Business District aims at developing modern services, especially innovative financial services.

KPMG Observations

Although the reform and development objectives of Tianjin FTZ have already been clarified, investors still need to wait for detailed rules to be issued by regulatory authorities. Based on the current Overall Plan of Tianjin FTZ and the Negative List, we would like to draw your attention to the following:

“Negative List” administration

The Negative List newly introduced by the State Council shall be applied to the four FTZs, which includes a total of 122 special administrative measures as opposed to the previous 139 measures of Shanghai FTZ. For foreign investment outside the list, the change from the need for approval to the practice of record-filing

(except for domestic investment projects which are still subject to approval pursuant to the requirements of the State Council), which is a key highlight of the “Negative List”, will greatly encourage foreign investors to enter China more easily or further increase their investment.

It is worth noting that the pre-establishment national treatment plus the “Negative List” administration is only effective before the establishment of a foreign-invested enterprise. The actual business that the enterprise can be allowed to carry out upon establishment shall still be subject to the approval of competent authorities, which is more likely to be dependent on the direct opening-up policies granted by the Tianjin FTZ authority. For example, Tianjin FTZ may choose the modern services industry like shipping service, business service, professional service and cultural and social service, or advanced manufacturing industry like equipment manufacturing and new information technology, for further opening-up. Certainly, investors still need to wait for detailed policies in this respect.

The pre-establishment national treatment plus the “Negative List” administration, nevertheless, is a short-term approach and only applicable to enterprises registered and established within the FTZ. It can be envisaged that the Chinese government will expand the successful experience and testing policies from the pilot FTZs nationwide in the future.

Tax and customs supervision

There is no explicit tax provisions set out by the Overall Plan of Tianjin FTZ. In principle, the piloted tax policies in Shanghai FTZ shall be applicable to Tianjin FTZ. Among these policies, selective customs collection for promoting trade and other policies relevant to the import and export, shall be piloted in special customs supervision areas in the FTZ. Moreover, the Overall Plan requires the tax policies, which are in line with the direction of tax reform, international practice as well as BEPS, to be actively studied and adapted to the outbound equity investment and offshore business development.

Upon the launch date of Tianjin FTZ, the Tianjin customs office has initially introduced 18 measures for customs supervision and service innovation to give full play to its exemplary role, facilitate trade, promote new business development and foster a good legal environment. Such measures include: autonomous transportation of bonded goods, unified record listing, domestic selective taxation, processing of the application of bonded warehouse and export supervision warehouse business in a centralised manner, “batch import and export and collective declaration”, paperless customs clearance accompanying documents, centralised summary taxation, diversification of tax guarantee, wired electronic audit of certificate of origin, finance lease, bonded delivery of futures, bonded exhibition/trading, maintenance and repair in and outside China, the preferential measures list for enterprises implementing certification (“AEO”), corporate credit information publicity, cancelling of the registration of customs declaration entities in pilot free trade zones, enterprise proactive disclosure and the

introduction of social intermediary organisations to support bonded supervision and corporate audit. The innovation of customs policies pays more attention to a systematic approach and integrity. It can be foreseen that the Tianjin customs office will further expand its regional functions, promote clearance facilitation, reduce operating expenses and protect trade security, which will bring more benefits to enterprises in import and export business.

Aviation and ship leasing industry

Tianjin has a head start in the aviation and ship leasing industry. Since the approval of the State Council in May 2011, Dongjiang Free Trade Port has been devoting itself to the establishment of a core zone of the international shipping and logistics centre in northern China, and has made an achievement in innovation attempts in four areas, namely, the international ship registration system, shipping taxation, finance lease and aviation finance. We are looking forward to more progress that Tianjin FTZ will make in the policy innovation of the aviation and ship leasing industry.

KPMG has set up an office in Tianjin FTZ and will commit to providing professional services to domestic and foreign investors. We will regularly update the regulations of Tianjin FTZ and provide further insights in the upcoming China Tax Alert issues.

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