China Tax Weekly Update

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Relevant industries: All
Relevant companies: Enterprises that have related party transactions
Relevant taxes: All

Potential impacts on businesses:

- Compliance costs increased
- Risks of being challenged due to non-compliance issues reduced

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

OECD TP Guidelines updated for BEPS changes

Based on a news item posted to the official website of the OECD, on 23 May 2016, the OECD Council approved the amendments to the *Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations* ("TP Guidelines"), as set out in the 2015 BEPS Report on Actions 8-10 "*Aligning Transfer Pricing Outcomes with Value Creation*" and the 2015 BEPS Report on Action 13 "*Transfer Pricing Documentation and Country-by-Country Reporting*". These amendments provide further clarity and legal certainty about the status of the BEPS changes to the TP Guidelines, which were endorsed by the OECD Council on 1 October 2015, by the G20 Finance Ministers on 8 October 2015, and by the G20 Leaders on 15-16 November 2015.

The specific changes introduced in the Transfer Pricing Guidelines by these Reports are as follows:

- Chapter I, Section D, which provides guidance for applying the arm's length principle is replaced in its entirety. The updated guidance includes a rigorous new approach to confirming whether parties that contractually assume risks actually control them, and also provide guidance on location savings, local market features and other matters.
- Chapter II additions are made to deal with commodity transactions.
- Chapter V, on TP Documentation, is replaced in its entirety, with a new framework of Master File, Local File, and Country by Country Report introduced.
- Chapter VI on Intangible Property is entirely replaced introducing, inter alia, the DEMPE framework for determining and remunerating the contributions of MNE group entities to group intangible property.
- Chapter VII on intra-group services is replaced in its entirety.
- Chapter VIII on Cost Contribution Arrangements is replaced in its entirety.

Further work is being undertaken by the OECD to bring Chapter IX on business restructurings in line with the guidance in the BEPS updates, and the OECD will hold a public consultation on this in the near future.

The SAT are in the process of drawing up guidance which would roll out the BEPS TP changes in China, nuancing these for Chinese economic and market circumstances. As this guidance would replace the existing guidance in SAT Circular 2 [2009], this forthcoming circular is generally referred to as 'New Circular 2', though it may ultimately take the form of several circulars.

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A public consultation was held on a draft of New Circular 2 in September 2015. Our earlier China Tax Alert on the content of this draft can be accessed at *SAT solicits public comments on new China transfer pricing and special tax adjustments guidance discussion draft (Issue 25, September 2015)*. A China Tax Alert on the BEPS 2015 Deliverables, including the BEPS TP changes and their significance for China can be accessed at *OECD 2015 BEPS Deliverables issued and China's response (Issue 28, October 2015)*. The final release date for the New Circular 2 is still to be confirmed by the SAT.

Reference: SAT Announcement [2016] No. 35
Issuance date: 6 June 2016
Effective date: 15 April 2016

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

Potential impacts on businesses:
- Compliance risks due to regulatory uncertainties reduced

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

SAT clarifies the use of HK tax residence certificate in mainland China

On 6 June 2016, the State Administration of Taxation (SAT) issued announcement No. 35 ("Announcement 35") to clarify issues concerning the use of HK tax residence certificate in mainland China.

- The tax residence certificate issued by the Inland Revenue Department (IRD) of Hong Kong Special Administrative Region (HKSAR) for a HK resident for a particular calendar year can be used to certify the HK resident identity of the HK resident for that particular calendar year and the subsequent two calendar years.
- In case of any changes in the status of the HK resident such that it does not qualify the HK resident criteria from the benefits in the Arrangement between Mainland HKSAR, the resident certificate issued in the particular calendar year shall not be used to certify the HK resident identity after the situation is changed.

Announcement 35 is effective from 15 April 2016. The resident identity certificate issued by the tax authority of HKSAR before 15 April 2016 shall also be governed by Announcement 35.

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Reference: Shui Zong Fa [2016] No. 84
Issuance date: 6 June 2016
Effective date: 6 June 2016

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

Potential impacts on businesses:
- Risks of being challenged due to non-compliance issues increased

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

STB and LTB new joint tax audit measures

In order to implement the requirement of "Realization for joint tax audit work of the state tax bureaux (STBs) and local tax bureaux (LTBs)" stipulated in the "*Deepening the collection and management system program of STB and LTB*", on 6 June 2016, SAT issued Shui Zong Fa [2016] No. 84. This is a *Notice on Issuing the Measures for Joint Tax Audit Work of State Tax Bureaux and Local Tax Bureaux (Trial)* ("the Measures"). The Measures stipulate relevant aspects of joint tax audit work carried out by STBs and LTBs, taking effect from 6 June 2016.

- Joint tax audits refer to STBs and LTBs carrying out joint tax audits on sites of taxpayers under their mutual jurisdiction, in accordance with their respective duties as well as the legal procedures. STBs and LTBs shall proceed comprehensive cooperation in law enforcement under the joint tax audits.
- STBs and LTBs shall realize tax audit information sharing by means of information exchanging, information sending and information inquiring.
- The Measures requires the STB and LTB to treat taxpayers meeting the conditions below as cases for joint audit:
  - ❖ On-site joint tax audit targets required by SAT;
  - ❖ Tax audit targets supervised and assigned by local party committee, local government or higher-level authorities;
  - ❖ On-site joint tax audit targets appointed by the joint working committee of the upper grade STB and LTB;
  - ❖ Cases for which specific indications of tax fraud have been obtained by the STB as well as the LTB;
  - ❖ Key tax source targets for both STB and LTB;
  - ❖ Other situations regulated by SAT.
- The STB and the LTB shall exchange their opinions regarding joint tax audit cases. For the same tax fraud case, the judgements shall be unified in respect of the behaviour nature and punishment standards.

* About the other relevant content related to the tax audit reform, you may click KPMG *China Tax Weekly Update* *Issue 20*、*Issue 21* to understand the details.

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Reference: Hui Fa [2016] No. 16
Issuance date: 9 June 2016
Effective date: 9 June 2016

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

Potential impacts on businesses:
- Compliance costs reduced

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

SAFE relaxes capital account forex settlement

On 9 June 2016, the State Administration of Foreign Exchange (SAFE) issued Hui Fa [2016] No. 16 ("Circular 16"), to: (1) Expand nationwide the administrative reform governing the conversion of foreign currency debt, borrowed from overseas, into RMB for use in business activities in China; and (2) Provide for uniform administration for conversion, of amounts received by a Chinese company (including an FIE) on its foreign capital account, into RMB and use of the RMB so converted for business purposes, by the company, at will. Circular 16 took effect from the date of issuance, i.e., 9 June 2016. The key content of Circular 16 is as follows:

- From 9 June 2016, all enterprises registered in China (including China domestic enterprises and foreign-invested enterprises (FIEs), but excluding financial institutions) are allowed to convert foreign debts into RMB at will.

  (In the past, only FIEs could convert foreign currency debt, borrowed from overseas, into RMB and use such funds in China in their businesses. China domestic financial institutions and other China domestic enterprises were not allowed to convert foreign currency debt from overseas into RMB or use the RMB funds in China. Since 2015, the rules have been relaxed in free trade zones (FTZs). Enterprises registered in the FTZs (excluding financial institutions) are allowed to convert foreign currency debts, borrowed from overseas, into RMB at will. The relaxation is now being expanded to all enterprises registered in China.)

- Capital account forex receipts which can be converted into RMB at will, can be converted at a bank as required by the domestic enterprise's actual management needs. This includes forex capital funds, foreign currency debt funds and returning funds of overseas IPO. The proportion of conversion at will of foreign exchange receipts is temporarily set as 100%. SAFE may adjust the aforesaid proportion in due time in light of China's balance of payments situation.

  (Since 2015, FIEs have been permitted to convert their forex equity capital into RMB at will. The relaxation is now being expanded to all enterprises registered in China and all capital account forex receipts, including forex capital funds, foreign currency debt funds and returning funds of overseas IPO.)

- The capital account forex receipts and the RMB funds being converted shall not be used for the following purposes:

  ❖ For expenditures, directly or indirectly, beyond the enterprise's business scope or those prohibited by the laws and regulations;

  ❖ For investments, directly or indirectly, in securities and in financial products except for guaranteed products issued by the bank, unless otherwise provided by laws and regulations;

  ❖ For granting of loans to non-affiliated enterprises (excluding cases where the business scope of the enterprise permits this);

  ❖ For the payments to build or purchase real estate property not for own use (excluding such activities proceeded by real estate enterprises).

  (SAFE is adopting a negative list approach in governing the use of capital account forex receipts. This approach has been adopted in governing the use of forex capital funds for FIEs since 2015. The practice is now being expanded to all enterprises and all capital account forex receipts. Moreover, the restriction on FIEs using forex capital funds to do equity investments in China has also been relaxed since 2015 as provided in Hui Fa [2015] No. 19.)

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Reference: GAC Announcement [2016] No.36
Issuance date: 15 June 2016
Effective date: N/A

Relevant industries: Service industry
Relevant companies: Technology advanced service enterprises established in the 31 service outsourcing demonstration cities and service innovation development pilot areas
Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced

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

GAC further expands the bonded supervision model for ATSE to another 14 trial cities

On 15 June 2016, the General Administration of Taxation (GAC) issued GAC Announcement [2016] No. 36, deciding to further expand the bonded supervision model of imported goods for Advanced Technology Service Enterprises (ATSEs). The model will be expanded to the service trade innovation and development pilot areas and the new service outsourcing demonstration cities. The main content of the announcement is as follows.

- In addition to the current 21 service outsourcing demonstration cities (Beijing, Tianjin, Shanghai, Chongqing, Guangzhou, Shenzhen, Wuhan, Dalian, Nanjing, Chengdu, Jinan, Xi'an, Harbin, Hangzhou, Hefei, Changsha, Nanchang, Suzhou, Daqing, Wuxi, Xiamen), the bonded supervision model of imported goods for ATSEs will be expanded to the service trade innovation and development pilot areas and 10 newly added service outsourcing demonstration cities. The pilot areas and the newly added cities include Hainan, Weihai, Gui'an new area, Xixian new area, Shenyang, Changchun, Nantong, Zhenjiang, Ningbo, Fuzhou (including Pingtan comprehensive pilot areas), Qingdao, Zhengzhou, Nanning, Urumqi, etc.
- The applicable enterprise shall be ATSEs identified by the competent authorities in the above areas. For such ATSEs, imported equipment provided by overseas party who outsources the services free of charge can enjoy the bonded supervision treatment.
- The applicable scope, declaration norm and administrative requirements of the bonded supervision model for ATSEs shall still be implemented according to GAC issues notice to fully expand the bonded supervision mode for ATSE (GAC Announcement [2010] No.39).

* For other content concerning the service trade innovation development, you may click to read KPMG *China Tax Weekly Update* *Issue 6*, *Issue 7* to understand more details.

Reference: Gong Shang Qi Jian Zi [2016] No. 97
Issuance date: 30 May 2016
Effective date: N/A

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

Potential impacts on businesses:

- Compliance costs increased

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

An initiative to deal with non-compliance by dormant enterprises

On 30 May 2016, the State Administration for Industry and Commerce (SAIC) and the SAT jointly issue Gong Shang Qi Jian Zi [2016] No. 97 ("Circular 97"), deciding to deal with non-compliance by dormant enterprises nationwide.

- Targets: enterprises that did not deliver annual report to local AIC and not complete tax filings to local tax authorities for two consecutive years
- Methods: urge the dormant enterprises to deliver annual report, to complete tax filings, to change the business registration items, or revoke the business license, etc.

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

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

Potential impacts on businesses:
- Risks of being challenged due to non-compliance issues reduced

You may click the circular title to access full content of the circulars.

Further local VAT reform implementation rules

In order to help better implement the new VAT rules Measures for Implementation of the Pilot Program of VAT Reform (Cai Shui [2016] No. 36, "Circular 36"), recently, SAT and the authorities in different regions issued several announcements to clarify implementation issues for the VAT reform. The main circulars are as follows:

- *Online Q and A about tax declaration of the VAT reform by SAT*
- *Shenzhen Stock Exchange Issues Notice on VAT reform related matters*

The State Council, the MOF and the SAT have recently issued many circulars for the implementation of Circular 36. You may click KPMG China Tax Weekly Update *Issue 13*, *Issue 14*, *Issue 15*, *Issue 16*, *Issue 17*, *Issue 18*, *Issue 19*, *Issue 20* , *Issue 21* *and* *Issue 22* to understand the details.

* On the occurrence of Circular 36 announcement, KPMG immediately issued a series of China Tax Alerts to provide an overview of the high level policies and general impacts across all industries. Focusing on construction, real estate, finance and lifestyle services, at the same time, we also issued specific alerts for each of the three major industries affected by these changes. You may click the following links to read:

- *China Tax Alert: China's new VAT rates & rules –high level policies and general impacts across all industries (Issue 9, March 2016)*
- *China Tax Alert: China's new VAT rates & rules –Financial Services impacts (Issue 10, March 2016)*
- *China Tax Alert: China's new VAT rates & rules –Lifestyle Services impacts (Issue 11, March 2016)*
- *China Tax Alert: China's new VAT rates & rules -Real Estate & Construction industry impacts (Issue 12, March 2016)*

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Reference: Hu Fu Ban Fa [2016] No. 23
Issuance date: 1 June 2016
Effective date: N/A

Relevant industries: Cross-border e-commerce
Relevant companies: Enterprises engaged in cross-border e-commerce and located in Shanghai
Relevant taxes: N/A

Potential impacts on businesses:

- Operational costs reduced

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

New scheme of China (Shanghai) Cross-border E-commerce Pilot Zone released

On 1 June 2016, the General Office of Shanghai Municipal Government issued Hu Fu Ban Fa [2016] No. 23, releasing *the Scheme of China (Shanghai) Cross-border E-commerce Pilot Zone* ("the Scheme"). Within two or three years, a regulation system will be put in place which governs online transactions, online supervision, online service and offline support. The Scheme sets out the following key tasks (partly included):

Improve the supervision system of cross-border e-commerce	• Establish cross-border e-commerce enterprise credit ratings system on the basis of the enterprise credit publicity platform. Various regulatory authorities shall implement classified administration based on different credit ratings of enterprises • Make innovations in customs administration for e-commerce enterprises. Use simplified customs classifications of retail export commodities. Promote the model of list declaration for customs clearance, and support the implementation of export business models including B2B and B2C. Implement supervision on the imports by adopting the model of "recordal filing in advance, centralized declaration, transportation by batches and consolidated taxation". Support express and logistics enterprises to directly connect their systems with the public service platform in order to realize the function of "bulk declaration with real-time delivery". • Make innovations on inspection and quarantine supervision model. There are notable differences in terms of levels of quality management in the places of origin of import and export goods. There are also differences in the degrees of integrity of the production and operation enterprises and risk levels for specific commodities. Consequently a corresponding multi-level and graded cross-border e-commerce inspection and quarantine supervision system will be developed. (This means that different goods produced in different places and imported and exported by different enterprises will be subject to different levels of supervision.) • Make innovations in the model of tax collection and administration. Promote paperless work model in tax refund for cross-border e-commerce enterprises.

* You may click to read KPMG *China Tax Weekly Update* Issue 3, Issue 12, Issue 14 to understand more details of cross-border e-commerce pilot zone and the new implementation rules for cross-border B2C e-commerce.

** With regard to the potential impact of the new regulations to cross-border e-commerce, you may click to access the following KPMG *China Tax Alerts*:

- *China Tax Alert: The Chinese Government Introduced New Policies to Regulate Cross-Border E-Commerce Retail Import Business and the Imported Articles (Issue 15, April 2016)*
- *China Tax Alert: China's New Import Tax Policies for Cross-border E-commerce worth the attention of the whole industry (Issue 14, March 2016)*

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

Relevant industries: All
Relevant companies: Enterprises related to Shanghai scientific and technological innovation centre
Relevant taxes: VAT/CIT/ Stamp Duty

Potential impacts on businesses:
- Compliance costs increased

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

Shanghai gives certain tax benefits automatic effect

6 June 2016, the Shanghai state tax bureau and Shanghai local tax bureau jointly released *the List of Automatic Enjoyment of Preferential Tax Policies* ("the List"). Taxpayers in Shanghai can automatically enjoy the 8 preferential tax policies as listed without the need of submitting any supporting materials to the authorities.

VAT	• VAT deduction/reduction for purchase of the special equipment of the VAT control system • VAT exemption for small and micro enterprises • VAT exemption for ticket income of science halls, natural museums, science & technology education bases and science & technology education activities
Corporate Income Tax (CIT)	• CIT exemption/reduction for qualified small and micro enterprises • Accelerated depreciation/amortization for fixed assets or software purchased • Accelerated depreciation or once-off deduction of fixed assets
Stamp Duty	• Preferential stamp duty during the restructuring process of enterprises • Preferential stamp duty on loan contracts concluded between financial organizations and small and micro enterprises

You may click to read KPMG *China Tax Weekly Update (Issue 4, February 2016)* to understand more details of the Several Measures issued by the SAT on supporting the building of Shanghai scientific and technological innovation centre.

Reference: BLTB Announcement [2016] No. 7
Issuance date: 26 May 2016
Effective date: 1 July 2016

Relevant industries: All
Relevant companies: Real estate development enterprises located in Beijing
Relevant taxes: Land Value-added Tax

Potential impacts on businesses:
- Compliance risks due to regulatory uncertainties reduced

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

New administrative procedures on settlement of Land Value-added Tax (LVAT) in Beijing

On 26 May 2016, the Beijing Local Tax Bureau (BLTB) issued Announcement [2016] No. 7, releasing the *BLTB Administrative Procedures on Settlement of Land Value-added* Tax ("the new Procedures"). The new Procedures revise the previous *BLTB Notice on Administration Measures on Settlement of Land Value-added Tax for Real Estate Development Enterprises* (Jing Di Shui Fa [2008] No. 92, "Circular 92"). The items in respects of filing and processing procedures, administration of examination, and management of tax agents are further improved in the new Procedures. The items in respects of project management, checking collection, tax preferential policies management, treatment of real estate transfer during or after the settlement period, new income and deductibles items after VAT reform are firstly added in the new Procedures.

The new Procedures shall be implemented with effect from 1 July 2016. Circular 92 will still be applied to those projects which have received the settlement processing notice issued by tax bureaux or the tax inspection notice issued by tax audit departments.

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Changes to Adjustment Fund Rules for Rural Collective Construction Land Transactions

The MOF and the Ministry of Land and Resource (MFR) Issue *Notice to Release the Provisional Regulations on the Administration of Collection and Use of Adjustment Funds for the Rural Collective Construction Land* (Cai Shui [2016] No. 41)

This clarifies the specific administrative measures on the adjustment funds which are collected when rural collective construction land is entering into market or further being further transferred in the market.

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

Measures to Facilitate Second-hand Car Trading

On 8 June 2016, the Ministry of Commerce (MOFCOM), the National Development and Reform Commission, the MOF, the SAT and other 7 authorities jointly issued *Notice on Several Opinions to Facilitate Second-hand Car Trading* (Shang Jian Zi [2016] No. 8)

This clarified a serious of specific opinions in order to facilitate second-hand car trading, including: transactions processing in different regions, registration procedures of transactions, tax administration, circulate information management, etc.

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

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