



BDO China Shu Lun Pan Certified Public Accountants LLP  
LIXIN Certified Tax Agents Co., Ltd

## China Tax Newsletter

February 2014

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## **1. Urban Land Use Tax on Barren Hills, Woodland, and Lakes Resumes**

Originally, the State Administration of Taxation (“SAT”) stated that unutilized barren hills, woodland, and lakes within the land used by an enterprise were exempt from the land use tax. Recently, the SAT released circular Cai Shui [2014] No. 1, stating that starting from 1 January 2014, this tax preferential policy would be cancelled in two steps, that is, the enterprise would be subject to the urban land use tax by half from 1 January 2014 to 31 December 2015, and at the full amount from 1 January 2016.

### **Tips from BDO China**

- (1) The urban land use tax is levied on the taxable land used by organizations or individuals and calculated based on the area of land actually occupied and the stipulated tax amount.
- (2) The urban land use tax is calculated on a yearly basis and paid on the installment basis.
- (3) Starting from 1 January 2007, foreign-invested enterprises and foreign enterprises shall also pay urban land use tax pursuant to related provisions.

## **2. SAT Released New Administrative Measures on Tax Refund (Exemption) for Zero-rated Taxable Services**

After the railway transportation and postal service sectors are incorporated into the pilot scheme on switching from business tax to value-added tax (“VAT”), the SAT released new administrative measures on tax refund (exemption) for zero-rated taxable services. Compared to the original circular, the new circular features the following modifications and addition:

- (1) Administrative measures on the application for zero VAT rate for international transportation services or Hong Kong, Macau and Taiwan transportation services via railway transportation are added to the circular;
- (2) Administrative measures on the application for zero VAT rate for aerospace transportation services are added to the circular;
- (3) Explicit administrative measures on the application for zero VAT rate for international transportation services or Hong Kong, Macau and Taiwan transportation services which use a transportation vehicle leased by way of time charter, wet lease, etc. are included in the circular;
- (4) Administrative measures on the application for zero VAT rate for foreign trade enterprises engaged in providing research and development services or design services to overseas clients are supplemented to the circular.

### **Tips from BDO China**

(1) Zero-rated taxable service include: a) provision of international transportation services by entities or individuals in China; b) provision of research and development services and design services by entities or individuals in China to overseas entities; c) provision of transportation services between Mainland China and Hong Kong, Macau, or Taiwan and in Hong Kong, Macau and Taiwan by entities or individuals in China; d) provision of voyage charter services by entities or individuals in China who charter transportation vehicles for international transportation services and Hong Kong, Macau and Taiwan transportation services; e) provision of time charter or wet lease services by entities or individuals in China to other entities or individuals in China when the lessees use the chartered transportation vehicles to provide international transportation services or Hong Kong, Macau and Taiwan

transportation services; f) provision of time charter or wet lease services by entities or individuals in China to overseas entities and individuals.

(2) For taxpayers applicable to the simple tax computation method, it makes no difference when their taxable services are applied with the policy of zero VAT rate and the policy of tax exemption.

(3) For taxpayers applicable to the general tax computation method, it makes a difference when their taxable services are applied with the policy of zero VAT rate and the policy of tax exemption. The policy of zero VAT rate includes the measure of tax exemption, credit, and refund and the measure of tax exemption and refund. When the measure of tax exemption, credit, and refund is applied, the taxable services are exempt from VAT, the corresponding input VAT is offset against the VAT payable, and the balance after the offset is refunded. When the measure of tax exemption and refund is applied, the taxable services are exempt from VAT, and the corresponding input VAT is refunded. When the policy of tax exemption is applied, the taxable services are exempt from output VAT while the corresponding input VAT cannot be offset.

(4) For taxpayers who are not qualified for the policy of zero VAT rate thus not applicable for the tax refund (exemption), they are still applicable for other tax preferential policies. For example, technology transfer, technology development, and the associated technology consulting and technology services are applicable for tax exemption; offshore service outsourcing is applicable for tax exemption; freight forwarding services falls in the category of logistics ancillary services and are applicable for tax exemption.

### **3. Examination of the Range of Activity Is Eliminated for Non-profit Organizations Applying for the Tax-Exempt Status**

As stated in Cai Shui [2009] No. 123, one of the criteria for a non-profit organization to be qualified for the tax-exempt status is that the range of activity of the organization mainly concentrates in China. However, the recently released circular Cai Shui [2014] No. 13 eliminates this criterion, making it possible for non-profit organizations engaged in overseas charity events to be qualified for the enterprise income tax exemption.

#### **Tips from BDO China**

(1) Though the SAT lowers the criteria for a non-profit organization to be qualified for the tax-exempt status, the scope of income entitled to tax exemption is not enlarged.

(2) Non-profit organizations eligible for this tax exemption are those established and registered according to related laws and regulations of the State. Currently, overseas non-profit organizations are not eligible for this tax exemption.

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Jesse Wang

Tel: +86-755-82900993

E-mail: [jesse.wang@bdo.com.cn](mailto:jesse.wang@bdo.com.cn) | [jesse.wang@bdo.com.cn](mailto:jesse.wang@bdo.com.cn)

Anne Raschick

E-mail: [araschick@bdo.com](mailto:araschick@bdo.com)

Jinsong Hu

Tel: +86-755-82966512

E-mail: [jason.hu@bdo.com.cn](mailto:jason.hu@bdo.com.cn) | [tax@bdo.com.cn](mailto:tax@bdo.com.cn)

Robert Pedersen

Partner, International Tax Services

+1 212-885-8398

E-mail: [RPedersen@bdo.com](mailto:RPedersen@bdo.com)

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