

CHINA TAX NEWSLETTER

TAX REFUND POLICIES FOR
PORTS OF DEPARTURE

... PAGE 2

PUBLIC RENTAL HOUSING
TAX POLICIES

... PAGE 3

CHINA / NETHERLANDS TAX
TREATY IN EFFECT

... PAGE 3

FURTHER REGULATIONS ON THE TAXABLE TURNOVER OF BOND TRANSACTIONS

Pursuant to Cai Shui [2003] No. 16, the tax base for calculating the business tax of bond transactions is the balance after deducting the buying price of bonds from the selling price of bonds, among which the buying price equals to the amount spent on buying the bonds less dividends received during the holding period. The recently released Announcement of the State Administration of Taxation [2014] No. 50 further specifies that the buying price shall be the amount spent on buying the bonds less the earnings obtained during the holding period.

Tips from BDO China

In the newly release circular, the wording "earnings obtained during the holding period" is used to replace "dividends received during the holding period", which means that income from interest shall also be included.

CONTENTS

Further Regulations on the Taxable Turnover of Bond Transactions

Notice of the SAT on Issues Related to Monitoring and Management of Special Tax Adjustments

Import Bonded Policy for Steel Products Imported Under Processing Trade Is Extended

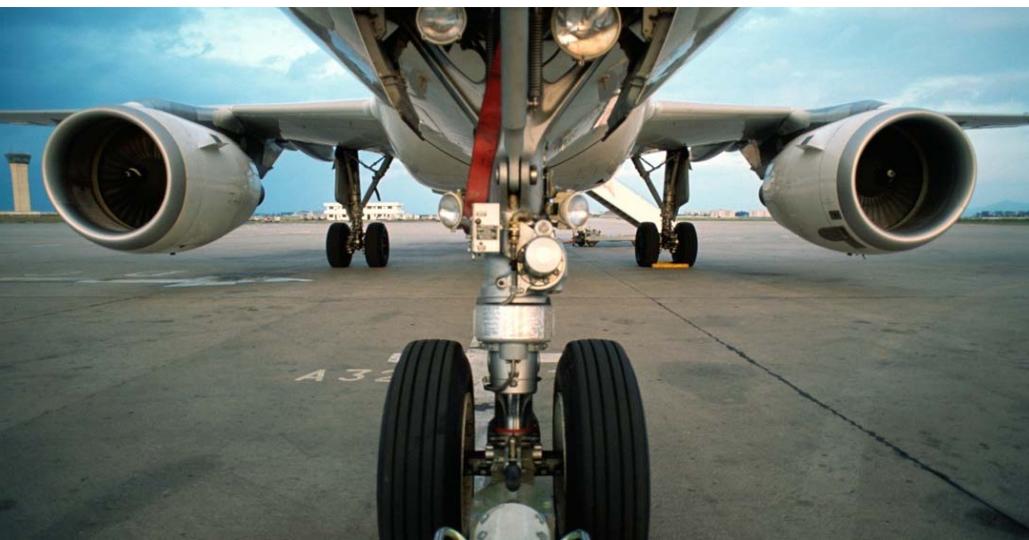
Pilot Scope of Tax Refund Policies for Ports of Departure Extends

Adjustments Made by the SAT on the Administration of Tax Refund (Exemption) for Export Goods or Labor Services

Preferential Tax Policies for Promoting the Development of Public Rental Housing

New Tax Treaty Between China and The Netherlands Comes into Effect

The SAT Re-promulgating the Administrative Measures for Exemption of VAT on Cross-border Taxable Services Included in the Scheme on Switching from Business Tax to VAT



NOTICE OF THE SAT ON ISSUES RELATED TO MONITORING AND MANAGEMENT OF SPECIAL TAX ADJUSTMENTS

Major points of the notice are as follows:

(1) Where the tax authorities discover that a taxpayer has special tax adjustment risks during the monitoring and management process, they shall send out a risk reminder to the taxpayer;

(2) Where the taxpayer is able to provide related information and take the initiative to make adjustments and supplementary tax payment according to the risk reminder, except for the interest levied based on the benchmark interest rate, an additional 5% will not be collected;

(3) Even the taxpayer has taken the initiative to make adjustments and supplementary tax payment, the tax authorities still have the right to conduct a special tax investigation and adjustment against the taxpayer.

IMPORT BONDED POLICY FOR STEEL PRODUCTS IMPORTED UNDER PROCESSING TRADE IS EXTENDED

Pursuant to Cai Guan Shui [2014] No. 37, starting from 31 July 2014, imported steel products of 78 tariff numbers will no longer be eligible for import bonded policy under processing trade. The recently released Cai Guan Shui [2014] No. 54 extended the import bonded policy to the end of 2014, i.e. starting from 1 January 2015, the aforementioned steel products imported under processing trade are subject to customs duty and import-related taxes.

PILOT SCOPE OF TAX REFUND POLICIES FOR PORTS OF DEPARTURE EXTENDS

Details are as follows:

(1) The ports of departure to which the tax refund policies apply increases to 8, including Longtan Port in Nanjing;

(2) The scope of means of transport applicable for the tax refund policies for ports of departure is extended to include those meeting the specified criteria.

Tips from BDO China

Tax refund policies for ports of departure: apply to container goods which depart from and are declared for export at the place of departure, are carried by a qualified transport enterprise and directly transited to the Yangshan Free Trade Port Zone of Shanghai through waterways and then from here leave the territory of China.

ADJUSTMENTS MADE BY THE SAT ON THE ADMINISTRATION OF TAX REFUND (EXEMPTION) FOR EXPORT GOODS OR LABOR SERVICES

To adapt to the regulation changes made by related governmental authorities, the State Administration of Taxation ("SAT") has made the following adjustments to the original administration regulations of tax refund (exemption) for export goods or labor services:

(1) Pursuant to the original circular, nine types of export enterprises are required to submit proof documents on foreign exchange receipts when applying for tax refund (exemption) for exports. In the new circular, the number is reduced to five;

(2) Pursuant to the original circular, taxpayers shall provide the receipt vouchers for income received from overseas organizations that had signed the research, development and design contracts with them when applying for tax refund (exemption) for research, development and design services. While the new circular states that for a membership company of a multinational corporation that operates and manages its foreign exchange funds on a centralized manner upon approval by the foreign exchange control authorities, it may, instead of providing the aforementioned receipt vouchers, provide receipt vouchers meeting the two specified conditions;

(3) Pursuant to the original circular, taxpayers shall apply to the competent tax authorities for the issuance of the Authentication Notice of Successful Bidding with the Notice of Bid Evaluation Result issued by the National Bid Evaluation Committee when applying for tax refund (exemption) for the tender awarded mechanical and electrical products. While the new circular states that for projects constructed with loans granted by an international financial organization or a foreign government through international bidding, the bid inviter can submit other specified materials to the competent tax authorities when applying for the Authentication Notice of Successful Bidding.

PREFERENTIAL TAX POLICIES FOR PROMOTING THE DEVELOPMENT OF PUBLIC RENTAL HOUSING

Preferential tax policies for promoting the development of public rental housing have been released recently, including:

- (1) Urban land use tax is exempted for the land used for the construction of public rental housing and the land occupied after the completion of public rental housing;
- (2) Stamp duty involved in the construction and management of public rental housing is exempted;
- (3) Deed tax and stamp duty are exempted for the purchase of residential houses to be used as public rental housing. Both parties to the lease of public rental housing are exempt from stamp duty;
- (4) Land VAT is exempted where old houses are transferred to be used as public rental housing with the appreciation rate not exceeding 20%;
- (5) Enterprises or individuals donating houses to be used as public rental housing are eligible for tax deduction pursuant to the regulations on donations specified in the enterprise income tax law and the individual income tax law respectively.
- (6) Subsidies for low-rent housing meeting specified criteria are exempt from individual income tax;
- (7) Rental income from the public rental housing is exempt from business tax and property tax.

Tips from BDO China

Public rental housing entitled to the aforesaid preferential tax policies refers to the public rental housing included in the public rental housing development planning and annual plans approved by the people's governments of provinces, autonomous regions, centrally-administered municipalities, cities with independent planning status and the Xinjiang Production & Construction Corps, and managed in accordance with the circular Jian Bao [2010] No. 87 and the specific administrative measures formulated by people's governments of cities and counties.

NEW TAX TREATY BETWEEN CHINA AND THE NETHERLANDS COMES INTO EFFECT

The new tax treaty signed on 31 May 2013 between China and the Netherlands is effective as of 31 August 2014 and applicable to income derived on 1 January 2015 and thereafter.

Tips from BDO China

Compared to the original tax treaty, the new tax treaty features the following tax preferential treatments:

- (1) Dividends: The minimum withholding income tax rate for dividends is 5%;
- (2) Royalties: The withholding income tax rate is reduced to 6% for rents received for the use of industrial, commercial, or scientific equipment;
- (3) Capital gains: For gains from the alienation of shares, it changes from being taxable in one contracting state to being taxable according to actual situations. Pursuant to the new tax treaty, an example would be: Assume that a Dutch company obtains capital gains from the alienation of the shares of a Chinese company. If the Dutch company, at any time during the twelve month period preceding such alienation, had held, directly or indirectly, at least 25 per cent of the shares of the Chinese company, the Dutch company shall pay tax in China for the capital gains; if the shares it held are less than 25 per cent, the Dutch company is not taxable in China. Nevertheless, for shares quoted on a stock exchange, capital gains derived from alienation of shares are not taxable in China provided that the total of the shares alienated by a resident during the fiscal year in which the alienation takes place does not exceed 3 per cent of the quoted shares. Once exceeded, the capital gains are taxable in China.

THE SAT RE-PROMULGATING THE ADMINISTRATIVE MEASURES FOR EXEMPTION OF VAT ON CROSS-BORDER TAXABLE SERVICES INCLUDED IN THE SCHEME ON SWITCHING FROM BUSINESS TAX TO VAT

Compared to the original circular, the new circular features the following supplements and adjustments:

(1) Added to the category of cross-border services exempt from value-added tax (VAT) are postal services, collection and delivery services, and telecommunications service. Meanwhile, meanings and implementation details of the preceding services are also specified;

(2) Situations where services should be treated as "telecommunications services provided to overseas organizations" are specified, the types of "written contract for cross-border services" are supplemented, and circumstances where income should be "deemed as income from overseas" are specified;

(3) The taxable services involving Hong Kong, Macao and Taiwan, which are provided by taxpayers, shall be treated as "cross-border taxable services" and are eligible for VAT exemption specified in this circular, unless otherwise stipulated.

Tips from BDO China

The circular will come into effect on 1 October 2014, before which, for enterprises that have provided cross-border services meeting the specified criteria, if VAT exemption had been declared, they shall complete related filing formalities; if VAT exemption had not declared, they shall complete the filing formalities before applying for tax refund or credit.

The Shenzhen Municipal Office, SAT has not released detailed implementation rules since the release of this new circular. Pursuant to the original administrative measures, the Shenzhen Municipal Office, SAT states that: for cross-border taxable services provided between 1 November 2012 and 31 December 2013 with VAT exemption filing formalities not completed, the taxpayers shall complete related filing formalities before 31 January 2014 and settle related tax payment. For those with VAT exemption filing formalities completed, no additional filing formalities are required.

The Newsletter is published for the clients of BDO China Shu Lun Pan Certified Public Accountants LLP and Lixin Certified Tax Agents Co., Ltd. The contents are for reference only which should be kept confidential. Although we try to ensure the accuracy, please note that the content is just the extract of related documents with our brief unbiased comments, thus detailed information should be referred to the full regulation mentioned when in practice. Readers are advised to consult tax advisors before acting on any information in this newsletter.

For more information or advice on the above subjects or other tax issues, please contact:

Jesse Wang

Tel: +86-755-82900993

E-mail: jesse.wang@bdo.com.cn
jesse.wang@bdo.com.cn

Jinsong Hu

Tel: +86-755-82966512

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

Robert Pedersen

Partner, International Tax Services

Tel: 212-885-8398

E-mail: RPedersen@bdo.com

To ensure compliance with US Treasury Department regulations, we wish to inform you that any tax advice that may be contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding tax-related penalties under the US Internal Revenue Code or applicable state or local tax law provisions or (ii) promoting, marketing or recommending to another party any tax-related matters addressed herein.

BDO International is a worldwide network of public accounting firms, called BDO Member Firms. Each BDO Member Firm is an independent legal entity in its own country. The network is coordinated by BDO Global Coordination B.V., incorporated in The Netherlands, with its statutory seat in Eindhoven (trade register registration number 33205251) and with an office at Boulevard de la Woluwe 60, 1200 Brussels, Belgium, where the International Executive Office is located.