

CHINA TAX NEWSLETTER

CLARIFICATION ON OFFSET OF INPUT VAT BEFORE A TAXPAYER IS ACCREDITED OR REGISTERED *PAGE 2*

PREFERENTIAL ENTERPRISE INCOME TAX POLICIES FOR SMALL LOW-PROFIT ENTERPRISES *PAGE 3*

AGREEMENT ON AVOIDANCE OF DOUBLE TAXATION & ENHANCEMENT ACROSS TAIWAN STRAITS *PAGE 5*



CLARIFICATION ON ISSUES RELATED TO THE PREFERENTIAL TAX POLICIES FOR EMPLOYMENT PROMOTION OF THE DISABLED

The disabled employed in the form of labor dispatching are deemed employees of the entities dispatching them. These entities are eligible for the preferential tax treatments specified in the Notice of the Ministry of Finance and State Administration of Taxation on Promulgation of Preferential Tax Policies for Employment Promotion of the Disabled (numbered Cai Shui [2007] No. 92).

Governmental offices, public institutions, and enterprises restructured therefrom that employ the disabled are eligible for related preferential tax treatments for the endowment insurance they paid for the disabled, which falls under the scope of basic endowment insurance.

The preceding provisions shall come into force on 1 September 2015.

CONTENTS

Clarification on Issues Related to the Preferential Tax Policies for Employment Promotion of the Disabled

Clarification on Offset of Input VAT Before a Taxpayer Is Accredited or Registered as a General VAT Taxpayer

Continuous Implementation of Preferential Tax Policies for Small and Micro Enterprises

Preferential Enterprise Income Tax Policies for Small Low-Profit Enterprises

Promulgation of Policies Concerning the Exemption of Business Tax on Refundable Personal Insurance Products with a Term of One Year or Above

Continuous Implementation of the Urban Land Use Tax Preferential Policies for the Land Owned by Logistics Enterprises That Is Used as Warehousing Facilities for Storing Staple Commodities

Promulgation of Differentiated Individual Income Tax Policies for Dividends and Bonuses

New Mode of Declaration Upon Occurrence of Tax Payment Obligation Put into Force by Shenzhen Local Tax Bureau

Signing of the Agreement on Avoidance of Double Taxation and Enhancement of Tax Cooperation Across the Taiwan Straits

CLARIFICATION ON OFFSET OF INPUT VAT BEFORE A TAXPAYER IS ACCREDITED OR REGISTERED AS A GENERAL VAT TAXPAYER

Starting from 19 August 2015, value-added tax (VAT) offset vouchers obtained by a taxpayer during the period from the completion of tax registration to the accreditation or registration as a general VAT taxpayer can be used as input VAT for offsetting after the taxpayer is accredited or registered as a general VAT taxpayer if:

- 1) the taxpayer has not obtained any income from production or business operation; and
- 2) the taxpayer has not calculated VAT payable according to the simplified method of multiplying sales and VAT rates when declaring and paying VAT during the period.

TIPS FROM BDO CHINA

If a taxpayer has obtained income from production and business operation and calculated VAT payable using the simplified method when paying VAT during the period from the completion of tax registration to the accreditation or registration as a general VAT taxpayer, the VAT offset vouchers obtained during the period cannot be used for input VAT offsetting after the taxpayer is accredited or registered as a general VAT taxpayer.



CONTINUOUS IMPLEMENTATION OF PREFERENTIAL TAX POLICIES FOR SMALL AND MICRO ENTERPRISES

Pursuant to the Notice of Ministry of Finance and State Administration of Taxation on VAT and Business Tax Policies to Further Support Small and Micro Enterprises (numbered Cai Shui [2014] No. 71), during the period from 1 October 2014 to 31 December 2015, VAT is exempted for any small-scale taxpayer whose monthly sales are not less than RMB20,000 but not more than RMB30,000, and business tax is exempted for any business taxpayer whose monthly turnover is not less than RMB20,000 but not more than RMB30,000. To provide continuous support to the development of small and micro enterprises and promote entrepreneurship and employment, the validity period of the preceding provision is extended to 31 December 2017 as approved by the State Council.

PREFERENTIAL ENTERPRISE INCOME TAX POLICIES FOR SMALL LOW-PROFIT ENTERPRISES

Starting from 1 October 2015 to 31 December 2017, for small low-profit enterprises whose annual taxable income is more than RMB200,000 but is not more than RMB30,000, they are entitled to calculated enterprise income tax payable based on 50% of the taxable income by the reduced tax rate of 20%.

The taxable income of the period from 1 October 2015 to 31 December 2015 shall be calculated using the annual taxable income multiplied by the proportion of the number of months with business operation after 1 October 2015 to the number of months with business operation for the year of 2015.

TIPS FROM BDO CHINA

Here is an example:

The confirmed taxable income of company A is RMB260,000 for FY2015. Company A operates through the whole year of 2015. The final enterprise income tax payable of company A for FY2015 shall be calculated as follows:

Step 1 Income breakdown for FY2015

(1) The taxable income of the 4th quarter is RMB65,000 (being RMB260,000 multiplied by 3/12), which is entitled to the preferential tax treatment of reduced taxable income by half and reduced tax rate of 20%.

(2) The taxable income of the 1st quarter to the 3rd quarter is RMB195,000 (being RMB260,000 minus RMB65,000), which is entitled to the preferential tax treatment of reduced tax rate of 20%.

Step 2 Calculation of the enterprise income tax payable of FY2015

Enterprise income tax payable of FY2015 = RMB195,000 x 20% + RMB65,000 x 50% x 20% = RMB39,000 + RMB6,500 = RMB45,500

PROMULGATION OF POLICIES CONCERNING THE EXEMPTION OF BUSINESS TAX ON REFUNDABLE PERSONAL INSURANCE PRODUCTS WITH A TERM OF ONE YEAR OR ABOVE

Starting from 1 September 2015, the premiums received by an insurance company from its refundable personal insurance products with a term of one year or above are exempt from business tax.

An insurance company shall conduct separate accounting for its personal insurance products that are exempted from business tax. If the said personal insurance products have not been accounted separately, the insurance company shall not enjoy the business tax exemption policy.

If business tax has been paid for the refundable personal insurance products with a term of one year or above that are eligible for business tax exemption in accordance with the preceding provisions, the corresponding tax amounts shall be refunded by the competent tax authorities.

CONTINUOUS IMPLEMENTATION OF THE URBAN LAND USE TAX PREFERENTIAL POLICIES FOR THE LAND OWNED BY LOGISTICS ENTERPRISES THAT IS USED AS WAREHOUSING FACILITIES FOR STORING STAPLE COMMODITIES

Starting from 1 January 2015 to 31 December 2016, for land owned by a logistics enterprise (for self-use as well as for leasing) that is used as warehousing facilities for storing staple commodities, the logistics enterprise is entitled to calculate the urban land use tax of the land based on 50% of the applicable tax amount levied based on the grades of the land.

PROMULGATION OF DIFFERENTIATED INDIVIDUAL INCOME TAX POLICIES FOR DIVIDENDS AND BONUSES

Starting from 8 September 2015, for shares of listed companies obtained by individuals via public offerings and market transfer and held for more than one year, the income from dividends and bonuses thereof shall temporarily be exempt from individual income tax; where the shares are held for less than one month (including one month), the income from dividends and bonuses thereof shall be fully included in the individual's taxable income amount; where the shares are held for a period from one month up to one year (including one year), 50% of the income from dividends and bonuses thereof shall temporarily be included in the individual's taxable income amount. The aforesaid income shall be subject to individual income tax based on 20% tax rate on a unified basis.

Differentiated individual income tax policies for dividends and bonuses of companies listed on the National Equities Exchange and Quotations shall be handled pursuant to the preceding provisions.

NEW MODE OF DECLARATION UPON OCCURRENCE OF TAX PAYMENT OBLIGATION PUT INTO FORCE BY SHENZHEN LOCAL TAX BUREAU

Starting from 1 August 2015, the new tax declaration mode of declaration upon occurrence of tax payment obligation is put into force by the Shenzhen local tax bureau.

First of all, the first declaration by a newly registered taxpayer is required only when tax payment obligation occurs. The newly registered taxpayer is required to start fulfilling the tax declaration and payment obligation within the designated time limit on a continuous basis after the "first occurrence of tax declaration and payment obligation" (only for business tax and its surtaxes and surcharges).

Secondly, the zero declaration for surtaxes and surcharges of VAT and consumption tax is cancelled. If the VAT and consumption tax amounts are zero as declared by a taxpayer, the zero declaration is not required for urban maintenance and construction tax, education surcharges, and local education surcharges of the same period, and no penalty will be imposed for overdue zero declaration of these surtaxes and surcharges of the period.

SIGNING OF THE AGREEMENT ON AVOIDANCE OF DOUBLE TAXATION AND ENHANCEMENT OF TAX COOPERATION ACROSS THE TAIWAN STRAITS

Chen Deming, Chairman of the Association for Relations Across the Taiwan Straits, and Lin Zhongsen, President of the Straits Exchange Foundation, signed the Agreement on Avoidance of Double Taxation and Enhancement of Tax Cooperation Across the Taiwan Straits on 25 August 2015 in Fuzhou. The agreement will come into force after related formalities are completed.

TIPS FROM BDO CHINA

Main contents of the agreement are as follows:

► Avoidance of double taxation

Both sides agree that the tax amount paid by a resident of one side to the other side for the income obtained from the other side can be used to offset the taxes payable of the resident in the area of his/her registered residence.

With regard to dividends, in addition to the preceding offsetting, a mainland firm is entitled to offset the enterprise income tax paid by a Taiwan company on the proportion of profits corresponding to the dividends, if the mainland firm directly or indirectly holds at least 10% of the shares of the Taiwan company (i.e. indirect tax credit). However, this provision does not apply to the Taiwan company.


► Limitation on withholding enterprise income tax rates for dividends, interest and royalties

- a. The tax rate limit for dividends is 10%. If the shareholding rate exceeds 25%, the tax rate limit would be 5%.
- b. The tax rate limit for interest is 7%.
- c. The tax rate limit for royalties is 7%.

► Special stipulations to the clause of property gains

Apart from general provisions, there are special stipulations with regard to the gains from share transfer (excluding the circumstance where more than 50% of the value of the share comes from fixed assets). The transferor shall pay taxes arising from the share transfer in the area of his/her registered residence, i.e. the competent tax authorities of the entity being transferred will not levy taxes on the entity out of the share transfer. However, the competent tax authorities of the entity being transferred can impose income tax on the gains from transfer if:

- a. the gains are exempt from the income tax as judged by the competent tax authorities of the transferor; and
- b. the transferor directly or indirectly owns at least 25% of the shares of the entity being transferred 12 months prior to the transfer.



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 / info@bdo.com.cn

JASON HU

Tel: +86-755-82966512

E-mail: jason.hu@bdo.com.cn

ROBERT PEDERSEN

Partner, International Tax Services

Tel: 212-885-8398

E-mail: rpetersen@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.

