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Foreword

China Tax Policy Review and Outlook is a series of annual publication designed by PwC’s China National Tax Policy Services to review key tax policy developments in China and discuss the trends from a forward-looking perspective. This 2017 China Tax Policy Review and 2018 Outlook is the third issue in the series.

2017 ended with stable economic development in China. This year, the Gross Domestic Product (GDP) growth rate in China increased from 6.7% to 6.9%. It is also the first time that the GDP growth rate rebounded since 2011. In particular, the growth rate of emerging industries such as strategic emerging industries, high-tech industries remained to be relatively high, and new driving forces have become the major motivation for stable economic growth.

As 2017 was also a year of deepened fiscal and taxation reform in the 13th Five-Year Plan, China’s Ministry of Finance (MOF), State Administration of Taxation (SAT) and other ministries have also released a series of tax policies to support China’s progressive and steady economic growth, promote the innovation-driven development strategy, and spur market vitality in China, including extending the tax incentives available to corporate partners of venture capital enterprises to individual partners and angel investors, rolling-out the tax policies for Technology Advanced Service Enterprises (TASEs) nationwide, increasing the super deduction percentage of research and development (R&D) expenses of small and medium sized technological enterprises and formulating the relevant assessment measures, etc.

Moreover, as the Business Tax (BT) to Value-added Tax (VAT) Transformation Pilot Program (B2V Pilot Reform) has been completed for over one year, China has stepped into the stage of improving the VAT reform (a post B2V era). We have also seen that the SAT is vigorously releasing relevant reform measures to further resolve the industry and administrative issues emerged during the B2V Pilot Reform. In addition, besides pushing out the reform on facilitating taxpayers comprehensively, the SAT also explores tax administration and service for large businesses so as to progressively formulate a well-functioned administrative system in China.

Meanwhile, China has also implemented innovative tax measures to attract foreign enterprises to invest in China and encourage domestic enterprises to “go-abroad”. On one hand, in order to further improve the business environment for foreign investment in China, China has intensively released several circulars including 20 Measures to attract foreign investments (the “20 Measures”), the negative list for foreign investments in the pilot free trade zones (PFTZs) (the “2017 PFTZ Negative List”), the new version of Industry Catalogue Guide for Foreign Investment (2017 Catalogue), and 22 Measures to further improve the business environment (the “22 Measures”), particularly the provisional deferral treatment for withholding tax (WHT) on direct re-investment of foreign investors using profits distributed from Chinese tax resident enterprises (TRE) released in the end of 2017. On the other hand, as the global economy is progressively revitalizing, China’s overseas investment and cooperation have also experienced a robust and orderly development, resulting in an optimized structure of the investment industry, vigorous outbound investment and M&A activities, and prosperous export business stimulated by contracting overseas infrastructure projects. Meanwhile, China has also paid close attention to the joint development with invested countries, steadily promoted investment and collaboration with countries along the “Belt and Road”, and constructed Overseas Economic and Trade Cooperation Zones in more than 40 countries. To support China’s foreign investment strategy and fulfil its taxation functions, the SAT has compiled a series of tax publications on foreign investment to help enterprises “going abroad” reduce their overseas tax risks; meanwhile, it has also released new policy on foreign tax credit, which effectively reduces the overall tax burden of enterprises on their foreign income.

Turning our eyes globally, China played a crucial role in international tax administration reform as well, such as proactively localizing the recommendations of the Base Erosion and Profit Shifting (BEPS) Action Plan (e.g. completing the framework reform of transfer pricing by releasing the Administrative Measures for Special Tax Adjustment (STA) and Mutual Agreement Procedures (MAP), concluding the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS to help enterprises to resolve global tax disputes); Moreover, the release of Administrative Measures on the Due Diligence Procedures for Non-residents’ Financial Account Information in Tax Matters earmarked the localization of the OECD-driven “Common Reporting Standards” (CRS) on automatic exchange of financial information in tax matters in China, and signified that China is ready to exchange the relevant information with other countries (jurisdictions).
Looking into 2018, we believe that China will continue to release some eye-catching tax policies to maintain the economy’s medium-high growth, fulfil the State’s innovation-driven development strategy and other objectives under the 13th Five-Year Plan. On 5 March 2018, Premier of the State Council, Li Keqiang, delivered the Report on the Work of the Government (the “2018 Government Work Report”) at the first session of the 13th National People’s Congress and clarified China’s fiscal and taxation tasks for the new year, including: steadily promoting legislating the property tax law, raising the threshold for levying individual income tax (IIT), further simplifying the VAT rates, and expanding the CIT incentives, etc. The report also stresses that China will further reduce taxes and non-tax burden of enterprises and individuals by over RMB 800 billion and RMB 300 billion respectively to address their needs. At the same time, the National People’s Congress (NPC) intends to fully implement the statutory taxation principle by 2020, and replace all the current tax regulations with law. In that respect, the Chinese fiscal and tax authorities also need to speed that up in 2018. On top of the domestic agenda, China also needs to face international challenges in the international world, including the uncertainties of the US tax reform.
Generate new momentum for “start-up and innovation”

Since Premier Li Keqiang called for “start-up and innovation” at the 2014 World Economic Forum in Davos, the Chinese government has been providing substantial support to technological innovation, private capital investment and start-up nationwide. “Start-up and innovation” has become an important driving force for the economic structural overhaul and upgrade of economic momentum. In order to fulfill one of the key tasks (i.e. transformation and upgrading the real economy through innovation) outlined in 2017 Government Work Report, the Chinese government has released a package of tax incentives. According to the statistical data of the Chinese government, those “start-up and innovation” tax incentives have saved Chinese enterprises more than RMB 500 billion in taxes in 2017.

1. Preferential policies for venture capital enterprises (VCEs) and angel investors (AIs) breathe new life into venture capital (VC) industry

The tax incentives to support VCEs was first introduced in the Corporate Income Tax (CIT) Law which took effect in 2008; however, such favorable treatment was only applicable to corporate VCEs but not partnership VCEs. In recent years more and more VCEs are established in the form of limited partnership, which accounts for 9.65% of VCEs as at the end of 2015 according to the 2016 Venture Capital Business Development Report issued by the National Development and Reform Commission (NDRC). The MOF and SAT have issued a series of policies in recent years, firstly on a pilot basis for certain designated areas and then nationally, to allow corporate partners of limited partnership VCEs to enjoy CIT incentives which were originally only applicable to corporate VCEs. In the meantime, along with the AIs’ more active presence, the growth of individual wealth and the increasing individual demand for venture investment in China, the VC industry is in urgent need of support in relevant Individual Income Tax (IIT) incentives. As a result, the MOF and SAT jointly issued Caishui [2017] No. 38 (Circular 38), providing the following IIT preferential policies in certain pilot areas including “Beijing-Tianjin-Hebei” region, Shanghai, Guangdong, Anhui, Sichuan, Wuhan, Xi’an, Shenyang and Suzhou Industrial Park:

- Policy beneficiaries: individual partners and AIs

One of the highlights of Circular 38 is to allow AIs and individual partners of limited partnership VCEs to enjoy IIT incentives, including:

- 70% of equity investment in qualified start-up technological enterprises can be used to offset the individual partners’ taxable income allocated by the limited partnership VCEs in the year after the investment has been held for two years. Any unutilised amount can be carried forward for deduction in the following years.

- 70% of equity investment in a qualified start-up technological enterprise is allowed to be deducted from the qualified AI’s taxable income derived from equity transfer of that start-up technological enterprise after a two-year holding period. Any unutilised amount can be carried forward for deduction in the following years.

- Investment: start-up technological enterprises

Before the issuance of Circular 38, only investment in small-to-medium-sized New/High Tech Enterprises (NHTEs) is eligible for the CIT incentive, which is quite harsh. Circular 38 has included qualified start-up technological enterprises as eligible investment by setting out the qualifying criteria on the amount of employees, total assets, sales revenue and etc. Meanwhile, Circular 38 emphasizes the importance of “technological” by stipulating that the annual R&D expenditures of the invested enterprises should not be less than 20% of its annual total expenditures.

The release of Circular 38 positively impacts the VC industry. Flexible investment targets and forms of investment have attracted more and more enterprises and individuals to invest in start-ups. In the meantime, the increase in investment in small-to-medium sized enterprises with R&D capability at the seeding stage and early stage would solve their cash flow issue. In the 2018 Government Work Report, one of Chinese government’s objectives is to roll out the tax preferential policies under Circular 38 nationwide which will encourage private capital to better serve the real economy, to invigorate “start-up and innovation” and to stimulate economic and employment growth.

2. Tax incentives for TASEs are rolled out nationwide

The preferential CIT policies for TASEs were first pilot in the Suzhou Industrial Zone in 2006 and were extended to 31 pilot cities with relaxed eligibility criteria. In order to further stimulate foreign investment and create a better environment for opening-up to foreign investment, the MOF, SAT, Ministry of Commerce (MOC), Ministry of Science and Technology (MST) and NDRC jointly issued Caishui [2017] No. 79 (Circular 79) to further extend the CIT incentives for TASEs nationwide, effective from January 1, 2017.

The tax incentive measures under Circular 79 include a reduced CIT rate of 15% and an increase in the deduction cap for employee education expenses for CIT purpose from the statutory rate of 2.5% to 8% of total wages and salaries. The aforementioned preferential policies and eligibility criteria provided in Circular 79 basically follow the tax policies for TASEs in the pilot cities. However, what is different from the past is that under Circular 79, the provincial-level authority rather than the municipal-level authority is responsible for TASEs’ determination so as to unify the standard and centralize the administration. At the same time, Circular 79 has a higher standard on information disclosure which requires the list of TASEs and relevant information updates to be filed and reported on the information platforms of MST and MOC.

During the past years, the Chinese government has enhanced the support for high-tech enterprises. The release of Circular 79 aims to allow eligible high-tech and high-value-added service enterprises across the country to enjoy the preferential tax policies for TASEs. Meanwhile, Circular 79 is also one of supportive policies of the State Council to promote the growth of foreign investment. By expanding the applicable scope, Circular 79 will help more TASEs to provide high quality services and improve the competitiveness of the industry.
During the past years, local governments have been providing certain supporting policies to SMSTEs to stimulate local technological innovation and economic growth. However, from a national perspective, since there is no uniform standard on the determination of SMSTEs, local governments may have different criteria for enterprises to apply for the qualification of SMSTE and enjoy the supporting policies. In May 2017, the MOF, SAT and MST jointly issued Caishui [2017] No. 34 to implement the proposal in the 2017 Government Work Report to increase the percentage of R&D expenses super deduction of SMSTEs is increased from 50% to 75% for CIT purpose. Subsequently, the aforesaid three ministries jointly issued the Assessment Measures for Small and Medium Sized Technological Enterprises (SMSTEs) (the Assessment Measures). The highlights of the Assessment Measures include:

- Similar to the Administrative Measures for Assessment of NHTEs, the Assessment Measures underlines technology as the core of the assessment system by specifying qualified SMSTEs have to have the ability to engage in R&D activities, obtain proprietary intellectual property rights and transform them into high-tech products or services. At the same time, in order to reduce the enterprises’ workload in reporting, as well as to maintain the consistency of the leading role of technology in multi-level scientific and technological innovative evaluation system, enterprises are allowed to be recognized as qualified SMSTEs directly without going through the comprehensive assessment if they have the prescribed credentials and satisfy the threshold requirements.

- To follow the spirit of “simplifying procedures and decentralizing powers” promoted by the Chinese government, the Assessment Measures require enterprises to self-assess whether they qualify as a SMSTE. The provincial-level supervision authority would verify and confirm the information submitted by the enterprises and announce the successful enterprises on the online platform and provide a unique registration number to the qualified SMSTE.

- Regarding post-supervision, the Assessment Measures emphasize the self-initiative of SMSTEs. SMSTEs should update the relevant information and perform self-assessment by completing the SMSTEs Information Form on the online platform by the end of March of every year. With the approach of, the provincial-level supervision authority would review the qualification of enterprises by examining and random checking the updated information, revoke the registration number of those enterprises failing to satisfy the relevant requirements, and announce them to the public on the service platform.

The Assessment Measures clarifies the evaluation criteria, procedures and administration of SMSTEs, which plays a crucial role in providing targeted tax incentives to SMSTEs and encouraging “start-up and innovation”.

A Post B2V era — timeliness of the VAT reform

After the completion of B2V Reform in 2016, the pace of development and improvement of the VAT regime in China has not stopped. On one hand, due to the huge difference between VAT and BT in terms of tax principles, essentials in the tax regulations as well as the collection and administration system, B2V Reform is not simple a replacement of BT with VAT; it seriously impacts taxpayers’ business arrangement, tax burden and even compliance. Hence, there are still a lot of industry issues in the construction sector, real estate sector, financial services sector and consumer services sector which have to be dealt with under the VAT regime. On the other hand, with the development of economy and innovation of business model, the VAT regime established in 1994 could not keep pace with time and relevant policies and tax collection and administration system need to be updated step by step. In 2017, the first year of post-B2V Reform era, we observed that many of the reform measures were released to solve urgent present issues and also provide a direction for the VAT Reform.

1. Simplifying the VAT rates

After the completion of B2V Reform in 2016, in addition to the zero VAT rate for specific taxable activities, there are still 4 VAT rates of 17%, 13%, 11% and 6%. Although differences among the various categories of taxable items have been fully considered in setting the multi-level VAT tax rates results, it still brings burden to taxpayers and the tax authorities on their compliance and tax collection and administration respectively. In this regard, to implement the decision of the executive meeting of the State Council, the MOF and SAT jointly issued Caishui [2017] No.37 (Circular 37) to abolish the 13% VAT rate from 1 July 2017, and taxable activities that were be subject to the 13% VAT rate will now be subject to 11%. Circular 37 also introduces supporting policies in order to eliminate the negative effect of simplifying the VAT rates on certain industries. It is stressed in the 2018 Government Work Report that one of the Chinese government’s objectives in 2018 is to simplify the three VAT brackets into two to adjust the level of the VAT rates, with the priority of lowering the VAT rates for the manufacturing and transportation sectors. It is anticipated that the finance and taxation authorities will release specific measures to adjust VAT rates.

2. Improving VAT policies

In 2017, the MOF and SAT released a series of follow-up tax circulars to clarify the VAT issues in specific business and industries. The most representative one is the VAT regulations for the asset management industry which have been adjusted and postponed for many times in a short period of time, which draws a lot of attention and hot discussions in the industry. It reflects the focus of the MOF and SAT on the smooth implementation of the B2V Reform and the tax burden of industries, as well as their positive attitude to constantly adjust the current policies. In the face of such a significant tax reform, further study is needed to ensure clarity of the VAT rules and reasonable tax burden for the specific industries in formulating standard and fair VAT regulations. It is generally believed that at this stage, the VAT policies in China still need to be constantly improved and, before the VAT regulations are legislated, the MOF and SAT will continue to issue a series of circulars to gradually improve the VAT policies to resolve industry issues and respond to the request of taxpayers.

3. Optimizing tax collection and administration

In 2017, apart from improving VAT policies, the Chinese tax authorities also committed to optimizing business environment, further deepening the reform of “streamlined administration, delegated powers, improved regulation and services”, simplifying VAT collection and administration measures, and reducing burden of both taxpayers and tax authorities. For this purpose, many measures have been adopted, including:

- Promoting the online tax office platform;
- Continue promoting the e-VAT general invoices;
- Simplifying the VAT returns;
- Simplifying the recording filing procedures for enjoying tax incentives;
- Allowing small-scaled taxpayers to issue VAT special invoices by itself on a pilot basis, etc.

At the same time, the Chinese tax authorities improved the VAT administration and taxpayer’s compliance by strengthening the monitoring of issuance of VAT invoice and undertaking VAT risk analysis. Consequently, balancing power delegation and streamlined administration, as well as optimizing services would be the future direction of VAT collection and administration.

4. Amending the Provisional Regulations on VAT of the People’s Republic of China (the “VAT Provisional Regulations”)

As a result of the completion of B2V Reform in 2016, BT has stepped down from history. In November 2017, the State Council issued the Decision abolishing the <Provisional Regulations on BT of the People’s Republic of China> (the “BT Provisional Regulations”) and revising the VAT Provisional Regulations in China (the revision). There are no significant changes to the prevailing policies in the revision whose main contents include:

- Expanding the taxable scope to include sales of service, intangible assets, and immovable property;
- Deleting the 13% VAT rate and adding VAT rates of 6% and 11%;
- Incorporating provisions which have been abolished or amended under the B2V Reform into the new regulations.

As scheduled, China will push forward legislating the VAT regulations in a timely manner after the comprehensive B2V Reform. Therefore, this revision is not final. Promulgating the VAT Law is still the most important goal to be accomplished in recent years. In our view, the future legislating of the VAT regulations will not simply be renaming the VAT Provisional Regulations as the VAT Law, but to establish a regular legislated VAT regime as well as tax collection and administration system which is finalized after a series of reforms and practices.

Using the B2V Reform as a significant symbol, the VAT regime in China is under constant reform and optimization. In addition to continuously improve tax policies as well as the tax collection and administration system, we look forward to policymakers, after taking into consideration feasibility and financial factors and using the legislating of the VAT regulations an opportunity, undertake more explorations, such as, establishing an effective and efficient cross-border VAT regulation system, expanding the pilot scope of refund period-end VAT credit balance, promoting the e-VAT special invoice, etc. in developing a fair and reasonable VAT regime.
More favorable business environment to further open up to foreign investments

Foreign direct investment has played an important role in promoting economic development. In the past ten years, a considerable portion of China’s annual GDP came from the contribution of foreign investment. However, according to the data provided by China’s MOC, the growth of foreign direct investment flowed into China in 2016 has slowed down, dropping from 6.4% in 2015 to 4.1% in 2016. Therefore, in the context of the new round of global investment competition, it has become one of the important topics of the National Leaders Group on how to increase the intensity of attracting foreign investment, how to create a more open business environment and how to push forward the sustained and healthy development of China’s economy. In 2017, the State Council issued two circulars setting forth the objectives of actively utilizing foreign capital which has been fulfilled in the fiscal and taxation policies introduced during that year. These efforts have achieved initial success. In 2017, the growth rate of foreign direct investment has risen to 7.9%.

To further attract foreign investment, the State Council issued the Notice Regarding Measures on the further Opening-up to and the Use of Foreign Capital (Guofa [2017] No.5, the “20 Measures”) in early 2017, putting forward 20 specific tasks in three aspects including expanding the opening-up to foreign investment, creating a fair competition environment and attracting foreign investment, and appointing the relevant in-charge governmental bodies to implement the tasks. In August 2017, the State Council issued another new circular setting forth 22 measures to further improve the business environment for foreign investment in China (Guofa [2017] No. 39, the “22 Measures”). The 22 Measures cover five areas, i.e. furthering relaxing the access restriction on foreign capital, formulating fiscal and taxation incentives, improving the comprehensive investment environment for state level economic development zones, facilitating talent entrance and exit as well as optimizing business environment.

These two sets of measures clarified the trend to open up certain sectors for foreign investment. The government will loosen or lift the restriction on foreign investments in the service sector and manufacturing and mining sector, and specify the timeline and roadmap for the opening up of the banking, securities and insurance sectors. In addition to relaxing the access restriction on foreign capital, the 20 Measures and 22 Measures provide a series of instructions to create a fair competition environment for both domestic enterprises and foreign investment enterprises, and also offer convenience and facilitation for foreign talents to start up business in China. It is worth mentioning that the 22 Measures proposed to formulate relevant fiscal and tax support policies to promote the growth of foreign capital. The most notable of these are the following three policies:

• Tax deferral treatment for reinvestment: dividends derived within China by foreign investors that are directly reinvested in State’s encouraged projects are eligible for tax deferral treatment provided that certain conditions are met.

• Extended scope of CIT preferential treatment applicable to qualified TASEs: the existing CIT preferential treatment applicable to qualified TASEs in the Service Outsourcing Demonstration Cities is extended to the rest of the country.

• Foreign tax credit: China will study and formulate relevant tax policies to support the repatriation of qualified overseas income by Chinese TREs.

We are pleased to see that all three fiscal and tax policies have come into force by the end of 2017. At the same time, the series of measures also deliver the signal to the world that China continues to welcome foreign investment. For foreign investment enterprises in China, this could be a good opportunity for them to adjust their investment strategies in China accordingly to seek more investment opportunities and facilitated measures.
2. The Negative Lists accelerated opening up to foreign capital

Within six months after the implementation of 20 Measures, the new negative list in pilot free trade zones for foreign investments (the “2017 PFTZ Negative List”) and the new version of Industry Catalogue Guide for Foreign Investment (2017 Catalogue) were released. Compared with the 2015 PFTZ Negative List, 27 measures in relation to manufacturing, financial service, transportation, information technology, etc. have been removed from the 2017 PFTZ Negative List. Learning from the successful experience of the PFTZ Negative List, the 2017 Catalogue was, for the first time, formulated in the form of a negative list by listing out the special administrative measures relating to restricted and prohibited items for foreign investments. Meanwhile, it also amended certain relevant items in the encouraged industries.

The essence of the negative list system is that “absence of legal prohibition means can invest”. Approval and examination are required if foreign investors are interested in investing in industry sectors listed on the negative list, while investing in industry sectors outside of the negative list is only subject to record-filing administration. The decrease in the number of industry sectors listed on the Negative Lists indicates a decrease in the scope of investments that are subject to the approval of government, which could effectively activate the market, promote a new round of opening up and create a law governing, convenient and self-compliant business environment.

With the overall trend of opening up, we believe that the Negative List will be gradually streamlined and in the future foreign investors can enjoy the same treatment available to domestic investors and a fair business environment.
3. Tax deferral treatment for foreign investors’ reinvestment was released as scheduled

In order to implement the policy in the 22 Measures that encourages foreign investors to reinvest in China, the MOF, SAT, NDRC and MOC jointly released Caishui [2017] No.88 (Circular 88), setting out the supporting tax measure to allow foreign investors to enjoy a withholding tax (“WHT”) deferral treatment on the direct reinvestment of profits distributed from Chinese TREs into China’s “encouraged projects” (the tax deferral treatment). Under the current CIT Law, dividends derived by a non-TRE from China are subject to a 10% WHT at source in China, unless a more favorable treaty benefit applies. Foreign investors wishing to enjoy the tax deferral treatment should fulfil four criteria, i.e. direct investment, nature of the distributed profits, direct payment, and reinvestment in encouraged projects.

In particular, to enjoy the tax deferral treatment, foreign investors have to reinvest in projects under the “encouraged catalogue” category designated in the Industry Catalogue Guide for Foreign Investment (the 2017 Catalogue) and businesses prescribed in the Preferential Industry Catalogue for Foreign Investment in Central and Western Region. The majority of encouraged industries for foreign investors in the 2017 Catalogue is in the manufacturing sectors, especially high-tech and high-value-added manufacturing. It can be seen that the tax deferral treatment is to further promote the State’s strategy of “Made in China 2025”, and can effectively attract foreign capital to invest in the State’s key development areas such as high-end manufacturing, intelligent manufacturing and productive services, etc.

All in all, the release of the tax deferral treatment policy shows the determination of the Chinese government to enhance its competitiveness in attracting foreign capital and encourage foreign investors to expand their investment in China. For foreign investors, this favorable policy would not result in permanent tax saving, but would reduce their cost of capital and hence improve their overall investment returns. Multinational corporations may consider adjusting their existing global investment plans by increasing their investment in China and enjoying the benefits of the tax deferred treatment.

4. New rules on the refined WHT policies for non-tax resident enterprises (“non-TREs”)

For cross-border transactions, WHT at source has always been the principal means to collect tax from non-TREs by Chinese tax authorities. The payer is designated as the withholding agent under the WHT regime, and the payer has to withhold the income tax on the date when the payment is actually paid or become due. All along, Guoshuifa [2009] No.3 (Circular 3) is the basic tax administrative document with regard to WHT at source for non-TREs. In October 2017, the SAT released the Public Notice on the Matters Regarding Withholding Income Tax at Source for Non-TREs (SAT Public Notice [2017] No. 37, Public Notice 37) which replaces Circular 3 and a number of important policy circulars on WHT at source. The important changes in Public Notice 37 include relieved tax administrative burden of both taxpayers and withholding agents, relaxing timeline for non-TRE’s reporting and adjusting the timing of withholding obligation on dividends, and more specifically:

- Relieved tax administrative burden: Public Notice 37 has removed the provision in Circular 3 which require the withholding agent to perform contract registration with its competent tax authority within 30 days from the date the contract is concluded. In addition, for contracts involving multiple payments, it has cancelled the provision which require the withholding agent to settle all taxes within 15 days prior to the last payment. These revisions generally simplify the taxpayer’s withholding procedures. For the reporting of the same nature of income deriving from various locations and involving multiple in-charge tax authorities, Public Notice 37 clarifies that the non-TRE can select one location to self-report and settle the tax. This provision will benefit non-TREs.

- Relaxed timeline for non-TRE’s reporting: Circular 3 has stipulated that where the withholding agent has not perform the withholding obligation according to the tax law, the non-TRE shall, within 7 days from the payment date or payment due date of the withholding agent, file and settle the CIT at the location where the income is derived. And if the non-TRE fail to settle taxes, surcharge will arise after 7 days from the date the withholding obligation arises. Public Notice 37 abolishes such timeline by stipulating that non-TRE which has self-reported and paid the relevant taxes before the imposition of a prescribed payment deadline by the tax authorities or who has paid the relevant taxes before the tax authority prescribed payment deadline, shall equally be regarded as having made the tax payment on time and no additional surcharge would be imposed, which further relieved their compliance burden accordingly.

- Adjusted the timing of withholding obligation of dividends: under the Notice Issued by the SAT Regarding Administration of Certain CIT Issues for Non-TREs (SAT Public Notice [2011] No. 24, Public Notice 24), it was stipulated that the withholding obligation on dividend arises on the date the resolution to declare the dividend is made (if payment is made prior to the resolution, then it is the date of the payment). The good news is that Public Notice 37 abolishes the provision in Public Notice 24 and stipulates that the withholding obligation on dividend shall arise when the payment is actually made. The deferred timing of withholding obligation shall leave sufficient time for taxpayers and withholding agents to prepare the necessary record-filing documents to claim treaty benefit.

In addition, Public Notice 37 has also revised the foreign currency conversion rules for computing the equity transfer income of non-TREs, provided a cost recovery method for computing the WHT on property transfer income settled by instalments, and also clarified the relevant in-charge tax authorities and the liability of withholding agent on failing to withhold taxes. Overall, on one hand, Public Notice 37 has solved some practical difficulties in the implementation of Circular 3, highlighted the basic features of WHT regime, put the focus of tax administration on the withholding agent and relaxed the obligations of non-resident taxpayers. On the other hand, Public Notice 37, using the spirit of “simplifying procedures and decentralizing powers”, has reduced the tax administrative burden of withholding agents and non-resident taxpayers and improved the business environment by strengthening the coordination management and service of the tax authorities. Both parties to cross-border transactions, especially non-resident taxpayers, are suggested to have an understanding of the policies in Public Notice 37 so as to enjoy the benefits and convenience brought by them.
Multiple tax policies to support Chinese enterprises to go farther along the “Belt and Road”

In 2013, President Xi first proposed to build a “Silk Road Economic Belt” and a “21st-Century Maritime Silk Road” (the “Belt and Road” initiative). For more than four years, Chinese enterprises have responded positively to the “Belt and Road” initiative and accelerated their steps in “going abroad”. In 2017, China’s non-financial outbound direct investment has reached $120.08 billion, of which $14.36 billion was to “Belt and Road” countries, which is around 12% of the total investment and 3.5% more than that of 2016.

As an important part of the global economic governance, taxation helps to optimize production capacity, eliminate barriers for cross-border investments and promote international economic cooperation. Likewise, it plays a significant role in promoting the “Belt and Road” development. In 2017, China tax authorities introduced a series of measures to further improve the “Belt and Road” tax service mechanism.

1. Circular 42 refines tax service mechanism to support “Belt and Road”

In April 2017, the SAT issued the Notice on Further Implementing Tax Service for the “Belt and Road” Development (Shuizongfa [2017] No.42, Circular 42), which sets out the implementation of multiple tasks in relation to tax services for the “Belt and Road” development, such as putting the tax treaty policy and bilateral cooperation memorandum into practice, assisting Chinese enterprises to launch mutual agreement procedures with overseas tax authorities, strengthening information exchange and cooperation with “Belt and Road” countries, working on the reform of “streamlined administration, delegated powers, improved regulation and services”, simplifying export tax refund processes, releasing comprehensive tax guides on investment priority countries along the “Belt and Road”, improving and enriching overseas tax information available to taxpayers.

In addition, Chinese tax authorities will further improve the tax advisory policy and vigorously promote the “going abroad” tax policy as well as alert Chinese enterprises “going abroad” of their specific tax risks based on relevant tax statistics and analysis, which facilitates the establishment of a comprehensive tax service mechanism for “Belt and Road” Initiative.

In recent years, the service approach of Chinese tax authorities is orientated by the needs of Chinese enterprises “going abroad”: they have accelerated the negotiation and signing of tax treaties to form a tax-treaty-network covering 106 countries/regions, of which 54 countries are along the “Belt and Road”. They provided tax relief for enterprises. They also further streamlined administration and delegated powers to make cross-border tax matters more straightforward. Moreover, they provided enterprises with accurate tax information, guidance, and consulting advice in relation to countries along “Belt and Road”. Chinese enterprises “going abroad” should make full use of the resources and services provided by the Chinese tax authorities and actively communicate with them, in order to safeguard companies’ interests and mitigate their tax-related risks.

2. The Country-by-Country Tax Guidance on Investments

Chinese enterprises “going abroad” may face overseas tax challenges such as double taxation and tax discrimination. If those enterprises have a deeper understanding and better preparation for the tax regime of investee countries, they will be able to minimize the tax uncertainty on going abroad. The SAT is also aware of this concern. It has begun collecting tax information on a country-by-country basis since 2013 established a mechanism for researching country-specific tax information in 2015, and released the Country-by-Country Tax Guidance on Investments (Tax Guidance) of 40 countries in 2017 as a response to Circular 42. As of now, the SAT has published Tax Guidance of 59 countries covering most countries/regions along the “Belt and Road” and other major overseas investee countries.

The Tax Guidance provides detailed explanation on the tax regime of each investee country, especially on tax treaties, anti-avoidance rules, and tax dispute resolution mechanism. It is expected that the SAT will expand the coverage of the Tax Guidance to more countries and regularly update the Tax Guidance to make it timely, practical and workable.

3. Tax Guidelines for “Going Abroad”

Besides the aforementioned Tax Guidance, the SAT also compiled the relevant tax regulations and tax treaties that might be useful for enterprises “going abroad” into the Tax Guidelines for “Going Abroad” (the Guidelines). The Guidelines mainly covers four areas: tax policies, tax treaties, administrative requirements and tax service measures. Specifically,

- Tax policies: it summarises 29 preferential tax policies regarding exports, cross-border services for enterprises’ reference;
- Tax treaties: it interprets in 25 subparts on the taxation of business income, investment income, service income and property transfer income derived from overseas from a tax treaty perspective, to assist enterprises in enjoying treaty benefits;
- Administrative requirements: it streamlines 21 administration measures and processes regarding tax registration, tax filing, and special tax investigation and adjustment to help enterprises improve compliance level and prevent tax-related risks.
- Tax service measures: it summarises 14 service measures such as advanced-pricing arrangements, bilateral negotiation on tax disputes, etc., providing the enterprises the access to assistance and other service measures.

4. The “Consolidated Credit Approach” enhances global competitiveness of Chinese enterprises “going abroad”

Double taxation is always an issue for Chinese enterprises “going abroad”. With the continuous increase in China’s outbound investment, eliminating double taxation becomes imperative. At the end of 2017, the MOF and the SAT jointly issued the Notice Refining the Tax Credit Policy of Foreign Income Derived by Enterprises (Caishui
[2017] No.84, Circular 84), allowing taxpayers to opt for the “Consolidated Credit Approach” (i.e. “no country/region-basket limitation and no item-basket limitation”) and expanding the number of layers of qualifying foreign affiliates for which the underlying foreign tax paid can be claimed as foreign tax on dividends.

Before Circular 84 was issued, Chinese enterprises can only use the “Country-by-Country Approach” in claiming foreign tax credit, which means that, if an enterprise invests in more than one country/region, the foreign tax paid in a country/region which is in excess of the foreign tax credit limit on income derived from that country/region cannot be used to set off against the China tax paid on foreign income derived from another country/region. The “Consolidated Credit Approach” now allows the taxpayers to claim foreign tax credit on a consolidated basis without a country-by-country limitation. Such approach would allow taxpayers to balance tax burdens among different countries/regions and increase allowable tax credits.

In order to control their foreign invested entities, more and more Chinese enterprises “going abroad” would set up multi-tier investment holding companies, of which some may have more than three layers of overseas companies. The three-tier foreign dividend tax credit provided under the existing regulations does not meet the needs of most businesses. Therefore, Circular 84 expands the layers of qualifying foreign affiliates from 3 to 5, in order to help enterprises eliminate double taxation more thoroughly and enhance their global competitiveness.

Over the past 30 years of reform and opening-up, China’s foreign investment policies have undergone a change from purely attracting foreign direct investments to both attracting foreign direct investments and encouraging outbound direct investments. The strategy of combining “bringing in” and “going abroad” has been incorporated into China’s overall economic development strategy. Following the “Belt and Road” strategy, the policy of foreign income tax credit is likely to be further optimized, which is something that enterprises “going abroad” would anticipate and should pay attention to.
A new landscape of domestic and international tax administration

In domestic tax administration, the study on the administration and service for large business enterprises (LBEs) has been at the top of the SAT’s agenda in recent years. In light of this, the Thousand Groups Project was put forward as the specific measures to implement such study. Since the Thousand Groups Project was launched, it gradually went through the transparency, standardization and normalization stages, and various work on the Project has continued to be pushing forward in 2017. At the same time, the Chinese tax authorities have adopted a more open approach towards tax disputes. From the international perspective, in the post-BEPS environment, China has successively developed a series of administrative policies to maintain the order of the international tax regime by combining the BEPS recommendations and China’s specific circumstances. To sum it up, China’s tax administration has taken a new step in both domestic and international tax administration.

1. Equal focus on administration and service – the new era of the Thousand Groups Project

- Clarifying the scope and adjustment mechanism of the Thousand Groups Project

The selection criteria and “entry and exit” mechanism of the Thousand Groups Project were not clarified until the year of 2017, which make it difficult for local-level tax authorities to precisely determine their targets and also bring about potential compliance risks to LBEs. In early of 2017, the SAT released the Administrative Measures on the Thousand Groups List (the “List”) (the SAT Public Notice [2017] No.7, Public Notice 7), which stipulates that enterprises that satisfy any one of the following conditions shall fall into the scope of the Thousand Groups administration:

- Corporate groups whose annual tax payments by the headquarters and its member enterprises exceed the threshold set by the SAT;
- All State owned or controlled enterprises and financial enterprises;
- Single corporate enterprise satisfying the annual tax payment threshold.

Meanwhile, for LBE groups with complicated shareholding structures, there is a lack of consistent standards in practice to determine the member of enterprises to be covered under LBEs administration. In this respect, Public Notice 7 also provides the guidelines to clarify the above uncertainties to a certain extent. Additionally, Public Notice 7 also requires the List to be adjusted regularly. In that respect, we noticed that, at the end of 2017, tax authorities at many locations have expanded their scope of LBEs under the unified arrangements of the SAT.

Public Notice 7 establishes a solid foundation for improving administration and service by facilitating the tax authorities to precisely identify their LBEs targets. After falling into the scope of Thousand Groups administration, LBEs will receive professional administration and service from the tax authorities, and at the same time be subject to the obligation to submit related data. LBEs should keep a close eye on the above work to understand the impact to them.

- Continue strengthening the risk-based tax administration

In 2017, tax authorities continued to strengthen the risk-based tax administration on the Thousand Groups according to the work procedure of “data collection, risk analysis, distribution and resolution, feedback and assessment”, which includes the initial establishment of the Thousand Groups database to update and optimize the List, the completion of a nation-wide tax administration platform for LBEs to improve work efficiency, the upgrading of the risk indicators from 1.0 version to 3.0 version, and the conducting of the tax risk analysis through the combination of automatic scanning via computer and professional reassessment by person, which has resulted in a significant breakthrough.

Risk-based tax administration and taxpayers are closely related, therefore it has attracted a lot of attention from LBEs. In response, the SAT held an online Q&A regarding tax risk-based tax administration on the Thousand Groups Project at the end of 2017 to introduce the project background, the work objective and the implementation approach. According to the messages delivered at the Q&A, since 2016, the Large Enterprise Administration Department of the SAT (LEAD) has performed tax risk analysis on more than 2,000 member companies of 700 Groups and the underpaid taxes were assessed to be more than RMB 100 billion.

- Great commitment on tax services

One of the objectives of the Thousand Groups Project is to provide customized service to LBEs to improve their tax compliance. For the next step, the Chinese tax authorities, based on the expansion of the scope of the Thousand Groups, will further enhance the tax services for LBEs. In summary, such services will include instilling a sense of service into the LBE’s and providing the tax service throughout all aspects of LBEs’ administration, focusing on LBEs’ real need and key tax issues and developing specific measures using the 18 measures on tax services for LBEs as a guideline, and ensuring full implementation of the service measures to improve LBEs’ satisfaction and tax compliance.

The SAT also provided a specific response via the online Q&A regarding the potential tax risks existed under corporate restructuring, which is a general concern of LBEs. The Chinese tax authorities will be more focused on the pre-event and on-going communication and coaching to timely understand the circumstances of the corporate restructuring, help enterprises to sort out the tax risks related to the restructuring, and guide enterprises to fully enjoy the preferential tax treatments for restructuring transactions. Meanwhile, LBEs should also understand the work objective of the tax authorities stated above, actively communicate with tax authorities at all levels to create interaction between them and the tax authorities with an aim to prevent tax risks, improve tax compliance and reduce costs.
2. More equitable and transparent channel for tax disputes resolution

Tax policy formulation generally lags behind the innovativeness and changes in economic activities and business models, which will give rise to disputes between the tax authorities and taxpayers on the tax treatment of the relevant business activities. In recent years, with the improved legal environment in China and the change in the tax authority’s mindset, the Chinese tax authorities has adopted a more open approach towards tax disputes. On one hand, more and more taxpayers are willing to address tax disputes through formal procedures, such as through tax administrative appeals and court litigations to resolve domestic tax disputes, and mutual agreement procedures to resolve cross-border tax issues. On the other hand, tax authority is also continuously improving the quality of tax law implementation, such as the introduction of the “accountability system” for tax law implementation to positively prevent and mitigate tax disputes.

According to the SAT and Legislative Affairs Office of the State Council, the numbers of tax administrative appeals and court litigations in 2015 were 699 and 549 respectively, almost doubling and tripling the respective number of cases in 2011. The numbers of tax administrative appeals and court litigations in 2016 were 456 and 367 respectively with certain geographic features (relatively more disputed cases were accepted in developed areas). Generally speaking, the Chinese tax authority’s efforts in various areas will help China establish a more equitable, transparent and efficient tax system so as to improve its competitiveness in international taxation.

3. Further progress on actively implementing the BEPS Action Plan

Internationally, since the initiation of BEPS Project, China has been involved in the BEPS Project as a partner of the Organization for Economic Cooperation and Development (OECD) and one of the G20 members. As a result, China has made significant contribution to the progress achievement of the BEPS Project and played an active role in protecting the tax interest of China, developing countries and emerging economies as well. In 2017, China successively issued the Public Notice of the SAT Regarding the Release of the “Administrative Measures for STAs and MAP” (the SAT Public Notice [2017] No.6, Public Notice 6), the Administrative Measures on Due Diligence Procedures for Nonresidents’ Financial Account Information in Tax Matters and signed the outcome of BEPS Action 15, i.e. the Multilateral Convention to Implement Tax Treaty Related Measures to Prevent BEPS (the MLI), to further improve her international tax administration regime.

• The issuance of new measures for special tax investigation adjustments: China will supervise cross-border related party transactions more strictly

Since the announcement of the final reports of the BEPS Action Plan, the SAT has maintained a rapid pace in the reform of China’s transfer pricing (TP) regulations. In 2016, the SAT issued the Public Notice Regarding Refining the Reporting of Related Party Transactions and Administration of Transfer Pricing Documentation and Public Notice on Matters Regarding Refining the Administration of Advance Pricing Arrangements to modify China’s TP regulations on administration and service respectively. The release of Public Notice 6 indicates that the amendment of TP regulations on investigation has been concluded. In this respect, the overhaul of China’s TP legislative framework in the post-BEPS environment was finally completed.

Public Notice 6 took effective from 1 May 2017, which focuses on the refinement of the substantial and procedural rules of the special tax investigation based on the outcome of the BEPS Action Plan, including the TP methods and comparability analysis, special tax adjustment methods, TP administration on intangibles and intra-group service as well as the mutual agreement procedures of special tax adjustments, etc. Compared with the final outcome of the BEPS Action Plan, Public Notice 6 has added in China’s specific features. Special attention should be paid to the following points:

- For the TP administration on intangibles, under Public Notice 6, the enterprise is required to perform an analysis of value contributed by parties performing the functions of development, enhancement, maintenance, protection, exploitation and promotion (“DEMPEP”) of the intangibles. Compared with the DEMPE functions of intangibles in the related BEPS outcome, Public Notice 6 has includes “promotion” as an important function. In addition, Public Notice 6 also introduces the royalty adjustment mechanism between enterprises and their related parties, which also reflects the SAT’s opinion that local activities (i.e., market premium) play an important role in the contribution of intangibles’ value.

- For intra-group services, China has not adopted the “safe harbour rule” for low value adding intra-group services advocated by the BEPS Action Plan. Moreover, the non-beneficial services defined in Public Notice 6 include “finance, tax, human resources and legal services carried out for the decision-making, monitoring, control and compliance purposes of the group”, which is different from the definition in the OECD TP guidelines. While it is not uncommon for multinationals to charge expenses in relation to finance, tax, human resources and legal activities to their Chinese subsidiaries as a part of the intra-group service fee, such charges have already received close scrutiny and often been adjusted during audits by the Chinese tax authorities.

For the Chinese tax authorities, the provisions in Public Notice 6 are specific and easy to follow. For multinationals, however, it brings challenges and uncertainties in managing their related party transactions. In the future, with the Chinese tax authorities strengthening their administration and monitoring system on special tax adjustments, and establishing a dedicated team, TP audits and adjustments are expected to become more frequent and more sophisticated. Taxpayers are advised to regularly review and monitor their TP policies and actual results, especially pay more attention to the related party transactions on intangibles and intra-group services, and make timely adjustment if necessary in order to maintain their compliance with the TP regulations.

• The implementation of domestic Common Reporting Standards (CRS): China fulfils her commitment to combat offshore tax evasion

The objective of CRS is to ensure that tax authorities in each jurisdiction could obtain information of the offshore financial accounts of their residents through exchange of information with participation jurisdictions on information collected by them from financial institutions in their jurisdictions on financial accounts set up by non-residents of that jurisdiction. The purpose of which is to combat tax evasion by taxpayers using offshore accounts. As of January of 2018, there are up to 98 signatories including China to the CRS Multilateral Competent Authority Agreement.
In May of 2017, the MOF, SAT together with the People’s Bank of China and three commissions1 jointly issued the Administrative Measure on Due Diligence Procedures for Non-residents’ Financial Account Information in Tax Matters (the Measures), which marks the official implementation of the CRS in China. Financial institutions established in China are required to carry out due diligence procedures on financial accounts starting from July 1, 2017, which indicates that China is ready to fulfill her commitment to exchange the first round of financial account information by September 2018.

The promulgation of the Measures provides formal legal basis and administrative guidelines for the implementation of CRS in China, which indicates that China is ready to exchange information with other CRS participating jurisdictions. For China’s tax authorities, the Measures will help them to enhance their collection and usage of foreign sourced information so as combat tax evasion by taxpayers using offshore accounts.

**Signing of the Multilateral Convention: China opens her new chapter on tax treaties**

Some of the BEPS Action Points cannot be implemented without amending existing tax treaties. While making amendments on a treaty-by-treaty basis (more than 3,000 bilateral treaties around the globe) would be burdensome and time consuming, BEPS Action 15 explores the feasibility of developing an MLI to modify tax treaties swiftly. After several rounds of negotiation spanning more than 1 year, the MLI was finally concluded at the end of 2016. In the signing ceremony held in June 2017, Mr. Wang Jun, the Commissioner of the SAT, signed the MLI on behalf of China, which means China has opened a new chapter on tax treaties.

According to the provisional MLI positions regarding options to be deposited with the OECD, the details of the most important positions of China in relation to the articles in the MLI are:

- **Covered tax agreement**: China puts all of its existing tax treaties (excluding China’s three effective tax arrangements with Hong Kong, Macau and Taiwan) into the covered tax agreement, except for the one with Chile and the one with India.

- **Treaty abuse**: China includes the principal purpose test (PPT) provision but does not adopt the simplified limitation on benefits (LOB) test. It is noteworthy that the threshold period for enjoying treaty benefit on capital gain from transfer of property-rich companies is still three years, and the one year-period provided in the MLI was not adopted by China.

- **Avoidance of Permanent Establishment (PE)**: China opts out of all the provisions in the avoidance of PE section.

- **MAP**: China opts out of the arbitration clause.

It is expected that the MLI, together with China’s tax treaties, exchange of information and bilateral tax cooperation memos, will bring immediate impact to the application of the tax treaties concerned. Moreover, the MLI may also reshape China’s international taxation rules in the long run.

With more of China’s treaty partners signing the MLI, it is likely that more Sino-foreign tax treaties will be updated in the future, and China may also modify her options regarding the MLI. Therefore, taxpayers with cross-border business, as well as the tax authorities in each level should continue to pay attention to the future development of the MLI.

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1. The three commissions refer to China Banking Regulatory Commission (CBRC), China Securities Regulatory Commission (CSRC) and China Insurance Regulatory Commission (CIRC).
Outlook for 2018

In China, taxation no longer simply performs the function as a source of government finance and public service provision. Instead, it is closely related with multiple factors such as people’s livelihood, economic and industry growth, legal governance and politics, etc., which evolve interactively.

Looking into 2018, we believe that China will release a next round of eye catching measures to support the realization of the “economy’s medium-high growth, fulfill the state’s innovation-driven development strategy” objective and other major objectives under the 13th Five-Year Plan. It is also indicated in the 2018 Government Work Report that China will reduce the tax burden and non-tax burden of businesses by over RMB 800 billion and RMB 300 billion respectively.

At the same time, the National People’s Congress (NPC) sets forth to fully implement the statutory taxation principle by 2020, and replace all the current tax regulations with law. In addition to the current CIT, IIT, vehicles and vessels tax, environmental protection tax, vessel tonnage tax, and tobacco tax which were legislated, the discussion drafts for cultivated land occupancy tax law and vehicle purchase tax law have already been promulgated, and the legislation of other taxes is also included into the state’s work agenda. Moreover, the frequently discussed reform on major taxes such as consumption tax, IIT, property tax, CIT and VAT during the past years remains to be the key tasks of the SAT and legislative authority:

- **Consumption tax**: China has constantly improved the consumption tax regime by slightly adjusting its taxable scope and levy rates during the recent years. Going forward, it will progressively deepen the consumption tax reform, e.g., adjusting the taxation stage of certain taxable products and income apportionment, etc.

- **IIT**: As mentioned by the Minister of the MOF, Mr. Xiao Jie at a press conference during the Annual Sessions of the 2018 NPC & Chinese People’s Political Consultative Conference (CPPCC) for reporters from home and abroad (the “2018 Press Conference”), China’s general principle in implementing the IIT reform is to “establish an IIT regime comprising of a combination of comprehensive and category taxation”. Meanwhile, it will raise the threshold for IIT collection and provide new deduction categories (e.g., children’s education and treatment for serious illness, etc.). These measures will allow individual taxpayers to carry a more reasonable tax burden, further demonstrate fair taxation and regulate income distribution in the country.

- **Property tax**: the property tax reform is closely related to public interests and remains to be the key and difficult task of China’s tax reform. The Minister of the MOF, Mr. Xiao Jie has indicated the direction of China’s property tax reform in his interpretation of President Xi’s Report of the 19th CPC National Congress namely Accelerated Establishment of China’s Modern Fiscal Regime, i.e. to push forward the legislation and implementation of property tax according to the principle of “legislation first, fully delegated power, and progressing step by step”. At the 2018 Press Conference, the MOF disclosed certain key information related to property tax as well, including: imposing property tax based on assessed value for properties owned by industrial and commercial business as well as residential housing owned by individuals, and providing tax reduction or exemption to certain families in difficulty, low-income families and groups with special difficulties.

- **CIT**: In order to promote the transformation and upgrading of the real economy and further relieve the tax burden of small-to-medium sized enterprises, the 2018 Government Work Report proposes to significantly increase the deductible limit of enterprise’s newly purchased facilities and equipment, and largely expand the scope of small and thin profit enterprises eligible for the 50% reduction of CIT.

- **VAT**: With the completion of the B2V Pilot Reform in 2016, how to optimize the structure of the VAT rates has become one of the major objectives of the VAT reform. Based on the 2018 Government Work Report, China will further simplify the VAT rates, adjust the tax rate brackets from three to two with lowering the tax rates for the manufacturing and transportation industries a priority. At the same time, it will also increase the threshold of annual taxable sales amount of small-scaled taxpayers which will allow more taxpayers to flexibly select the tax treatment according to their own specific situations and effectively reduce their tax burden.

In terms of tax collection and administration, although there has not been any development on the Consultation Draft of the Amendment to the Tax Collection and Administration Law of the PRC (the Consultation Draft) for public comments has no updated development since its release in 2015, it is included as one of the preparatory and consulting projects in the Legislation Work Scheme of the NPC’s Standing Committee for Year 2017 subject to review after 2017. Considering its crucial role in improving tax administration (e.g., the establishment of an effective tax administration system for natural taxpayers), we believe that the relevant ministries have not slowed down the amending process and expect that the Consultation Draft will achieve significant progress in 2018. Speaking of tax administration and tax service, according to the report Paying Taxes 2018 jointly released by PwC and the World Bank, China has made extraordinary improvement in “compliance hours”, which has decreased by 52 hours (20%) and shows the result of the Chinese tax authority’s persistent efforts in implementing the reform to facilitate taxpayer. We believe that the SAT and local-level tax authorities will further optimize measures on taxpayer services, and provide convenient and efficient business environment by virtue of a risk-oriented tax administration in a big data era. These efforts are beneficial to the general taxpayers. Meanwhile, there are reasons to believe that steadily exploring the advance ruling mechanism, improving tax certainty, supporting more taxpayers to participate in the legislation process and developing speaking channels for taxpayers are the tax governance objectives of the Chinese fiscal and taxation policy makers in the future.

Looking back to 2017, the world economy is going through profound adjustment, and many countries are hoping to revitalize their market and boost their economy through tax reform. On 20 December 2017, the globally eye-catching US tax reform bill was finally submitted to the President of the US to be signed into law, which officially unveils the largest tax cut plan since the Reagan Administration in 1980. This new tax reform has introduced significant measures in terms of both domestic and cross-border tax regimes, which may attract more US enterprises to return to the US and other foreign enterprises to invest into the US. At the same time, this reform will also cause spillovers to other countries. As the second biggest economy globally behind the US, China has no reason to ignore and overlook this reform. We believe that China will analyze and study the various potential impacts brought about by it, prepare corresponding measures to allow China to remain attractive and competitive in the world.

It can be anticipated that as the implementation measures for the 2018 US tax reform unveil progressively, China and other countries are also likely to release corresponding measures to response. However, considering China’s own development stage and long-term objectives, it is both unlikely and unnecessary to change its own specifically-designed tax strategy.
List of China Tax /Business News Flashes published in 2017

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Feb 2017, Issue 2 — China unveils 20 measures to further open up the economy to foreign investment

Feb 2017, Issue 3 — China unveils 20 measures to further open up the economy to foreign investment

Feb 2017, Issue 4 — SAFE released new circular to facilitate trade and investment and enhance authenticity and compliance review

Feb 2017, Issue 5 — New policy direction for establishing regional headquarters in Shanghai by multinational corporations

Mar 2017, Issue 6 — Interpretation of key fiscal and taxation tasks in 2017 delivered in recent National People’s Congress

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Apr 2017, Issue 11 — Release of the Administrative Measures on the Thousand Groups List — clearer scope and more regulated work procedures

Apr 2017, Issue 12 — Outlook for the proposed US tax reform (II) — highlights of the new President’s tax reform principles

Apr 2017, Issue 13 — Further clarification of B2V policies for certain relevant industries
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