



BDO China Shu Lun Pan Certified Public Accountants LLP
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China Tax Newsletter

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1. Notice on the Adjustment to Policies of Consumption Tax on Cosmetics

Cai Shui [2016] No. 103 adjusts the policies of consumption tax on cosmetics. Main contents of the circular are as below:

Cut consumption tax on ordinary cosmetics for beauty or makeup, change the name of tax item for "cosmetics" into "high-end cosmetics". Consumption tax would be levied on high-end cosmetics for beauty or makeup, high-end skincare cosmetics and complete set of cosmetics, which refer to cosmetics for beauty, makeup or skincare for which the selling price/customs value (excluding VAT) at the manufacturing/import stage is at least CNY10/ml. (g) or CNY15/pc. The tax rate is reduced to 15%.

Meanwhile, Announcement of the State Administration of Taxation [2016] No. 66 promulgates regulations relating to administration of levying and collection of consumption tax on high-end cosmetics. Main contents of the circular are as below:

(1) For deduction proof issued before 1 October 2016 obtained by a taxpayer manufacturing high-end cosmetics using taxed cosmetics which are purchased overseas, imported and claimed from entrusted processing, the taxpayer shall accrue deductible consumption tax based on the original consumption tax rate of 30% for cosmetics before 30 November 2016, and no accrual shall be made after the deadline.

(2) Taxpayers shall set up accounts for deductible consumption tax for high-end cosmetics pursuant to the provisions of Cai Shui Fa [2006] No. 49.

The Notice shall come into force on 1 October 2016.

2. Announcement of the Shenzhen Local Taxation Bureau and the Shenzhen Municipal Office, SAT on Entrusted Levying and Collection of Local Taxes and Dues

When issuing general or special value-added tax (VAT) invoices on behalf of small-scale taxpayers or construction enterprises with trans-regional business, the Shenzhen Municipal Office, SAT is entrusted to collect urban maintenance and construction tax, education surcharge and local education surcharge on behalf of the Shenzhen Local Taxation Bureau when collecting VAT.

When issuing invoices on behalf of natural persons temporarily engaged in production and operation, the Shenzhen Municipal Office, SAT is entrusted to collect individual income tax (IIT) assessed based on the sales amount of goods, processing and repair labour services or taxable services. The minimum assessed levy rate under "fixed rate levying and collection method" specified in the Announcement of the Shenzhen Local Taxation Bureau [2016] No. 2 is adopted for calculation of the IIT payable.

When issuing VAT invoices on behalf of project divisions established in other regions but directly managed by the head offices of the construction enterprises, the Shenzhen Municipal Office, SAT is entrusted to collect enterprise income tax (prepaid) based on the actual operating revenue at the rate of 0.2% if the following documents can be provided: i) Proof of Outward Business Tax Administration; and ii) documents issued by the head offices certifying that the project divisions are under direct management of the head offices (the divisions are deemed directly managed by the head offices if documents certifying the hierarchical relationship are absent).

The Announcement shall come into force on 1 October 2016 and remain effective for three years.

3. Notice of the Shenzhen Local Taxation Bureau on Adjustments to Pre-tax Deduction and Exemption Standards Relating to IIT for 2016

(1) For the lump-sum compensation received due to termination of labor relationship with employers by individuals in Shenzhen, the IIT exemption threshold has been adjusted to CNY243,102 (inclusive). The amount exceeding the threshold shall be taxed pursuant to related regulations.

(2) The monthly average salary on the basis of which an employee and his/her employer contribute to the housing provident fund shall be no more than CNY20,259 (being three times of CNY6,753). Where the contribution to the housing provident fund by an employee and his/her employer exceeds the aforesaid ratio and criterion, the excess shall be included in the income from the wage and salary of the employee for the current period and subject to IIT pursuant to the law.

(3) The portion of contributions to enterprise annuities and occupational annuities made by individuals which do not exceed 4% of the tax base of the wage for which contribution is made shall temporarily be deducted from the taxable income of the individual for the current period. Please be note that the tax base for wage shall not exceed CNY20,259 (being three times of CNY6,753). The excessive contribution amount shall be included in the income from the wage and salary of the individual for the current period and subject to IIT pursuant to the law.

The adjustments shall be implemented with effect from 1 July 2016 (tax period).

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