



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

China Tax Newsletter

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1. Notice on Full Scope Expansion of Value-Added Tax ("VAT") Pilot Arrangements

The Ministry of Finance and the State Administration of Taxation have set out formal notice on March 7, 2016, stating that starting from 1 May 1 2016, the scope of business tax switching to VAT pilot reform shall be expanded to industries of construction services, real estate, financial services and living services. Meanwhile, the main tasks and implementation date have also been announced. On 23 March 2016, the implementation rules for the VAT reform have been promulgated, together with provisions on relevant matters of the reform, transitional VAT exemption and refund policies, and VAT zero-rating and exemption policy on cross-border taxable activities.

After the full expansion of the VAT pilot arrangements, current taxpayers subject to business tax shall be included into the pilot scope and subject to VAT instead. The existing business tax shall be phased out.

Tips from BDO China

The VAT rates after the reform are as below:

- (1) Provision of transportation services, postal services, basic telecommunications services, construction services, leasing services of immovable assets, sales of immovable assets, sales of land used rights: 11%.
- (2) Provision of leasing services of tangible movable assets: 17%.
- (3) Cross-border taxable activities stipulated by the Ministry of Finance and the State Administration of Taxation: 0%.
- (4) Other taxable activities except the above-mentioned ones: 6%.

2. Notice on Adjustments to Deed Tax and Business Tax Incentives for Real Estate Transitions

Starting from 22 February 2016, the policies of deed tax and business tax incurred during real estate transactions have been adjusted as follows:

(1) Deed tax policies: There are different deed tax incentives under different scenarios when an individual purchases a residential property:

- In the case of purchase of a one-and-only household residential property, if the area of the property is smaller than or equals to 90 square meters, the individual shall be subject to the deed tax at the rate of 1%; otherwise, the individual shall be subject to the deed tax rate of 1.5%.
- In the case of purchase of the second residential property for improving household's living condition, 90 square meters shall still be the differentiation criteria for applying to different deed tax rates of 1% or 2%.

(2) Business tax policies: Caishui [2016] No. 23 has made some amendments based on Caishui [2015] No. 39, which includes policies under two circumstances:

- Individuals selling properties which are held for less than two years shall be fully taxed.
- Individuals selling properties which are held for more than two years (including two years) shall be exempted from business tax.

Tips from BDO China

The deed tax incentives for purchase of the second residential property for living improvement, as well as the abovementioned business tax incentives shall not be applied to cities of Beijing, Shanghai, Guangzhou and Shenzhen temporarily. These cities shall still adopt the business tax incentives stipulated in Caishui [2015] No.39.

3. Announcement on Simplification of Declaration of Taxes

The announcement applies to different types of taxpayers and tax categories:

(1) All taxpayers: There is no need to file zero declaration for surtaxes of VAT and consumption tax, i.e. urban maintenance and construction tax and education surcharges.

(2) Small scale VAT taxpayers: VAT, consumption tax, construction fee for cultural undertakings, and surtaxes and surcharges are required to be declared on a quarterly basis, or according to the tax period assessed by the tax authorities in charge.

(3) Small low-profit enterprises: It is required that they shall declare and prepay enterprise income tax on a quarterly basis.

The announcement shall be implemented with effect from April 1, 2016.

4. Implementation of the Fourth Protocol to the Arrangements between Mainland China and Hong Kong Special Administrative Region on Avoidance of Double Taxation and Prevention of Tax Evasion

The Fourth Protocol shall be effective from December 29, 2015, and shall be applied to income obtained on and after December 29, 2015. The main contents are as below:

(1) The royalties from leasing of aircraft and vessels shall be applicable to the 5% tax rate.

(2) Gains from alienating of shares are only taxable in the contracting party where the transferor is regarded as a resident, which shall meet with the criteria that buying and selling of the shares happen in the same stock market.

(3) The conditions for investment funds to be regarded as investment funds from a resident of a contracting party are specified.

(4) Exchange of information includes taxes of VAT, consumption tax, land appreciation tax and real estate tax.

5. Income Tax Policy on Interest Income Derived from Railway Bonds

Investors obtained interest income from railway bonds issued by China Railway Corporation during 2016 and 2018 shall be applicable to the following policies:

(1) Interest income obtained by corporate investors from holding of railway bonds is applicable to the exemption of 50% enterprise income tax payable.

(2) Interest income obtained by individual investors from holding of railway bonds is applicable to the 50% deduction of taxable income for calculation of individual income tax. The tax shall be withheld by the organizations that pay the interest.

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