China Integrated

China Integrated Bullet Points
December 2015

To ensure its future development, **China** is pushing a **new phase of reforms** which will require even faster changes to its business framework. One key aspect of the reforms will serve to encourage **domestic consumption** and promote **private investments** from both Chinese and foreign companies, to **maintain growth** while **keeping government debt** in check. Other aspects include the **simplification of the business environment** and the regulation of government agencies and officials for better **administrative efficiency**

China Integrated Bullet Points is an operational resource, presenting decision makers with concise updates on some recent government adjustments to China's business ecosystem that can be important to business operations.
In this issue:

- **China Opens Its Doors to Cross-Border E-Commerce**
  Consumer goods can be imported and sold cross-border directly to Chinese consumers as they are sold abroad free of local registration and requirements.

- **Shanghai Pioneers More Flexible Visa Measures to Attract Talent**
  Foreigners can now obtain permanent residence in China and foreign students or those launching a start-up can get a 2-year "personal affairs - entrepreneurship" visa.

- **New "3 in 1" Business License and Required Update for all Businesses**
  This will simplify yearly administration of companies. The change to the new business license will need to be carried out by all businesses in China.

- **Important Changes in Tax Regulations**
  150% of R&D expenses can be deducted retroactively for the past 3 years. Meanwhile tax loopholes are being closed

China Opens Its Doors to Cross-Border E-Commerce

China's burgeoning e-commerce ecosystem will be receiving another boost as a result of government initiative to further expand the consumer economy. Foreign producers of consumer goods are eligible for direct cross-border e-commerce sales into China.

- Foreign companies hoping to sell to the Chinese market are now be able to do so without formally registering a Chinese company or establishing a physical presence on the mainland. They do not need to register their products either.

- The Chinese Government is making crucial strides to improve import logistics for cross-border e-commerce, including support for rapid creation of bonded warehouses near critical transportation channels.

- Goods imported under cross-border e-commerce receive preference in the customs process to be inspected and declared with more ease. Besides, import taxes are waived on small purchases (depending on the product it may be from RMB 250 to 500).

- China will allow for full foreign ownership of designated e-commerce businesses.

Shanghai Pioneers More Flexible Visa Measures to Attract Talent

Consistent with the Chinese government's goal of shaping Shanghai into a center of global science and technology innovation, the Exit-Entry Bureau of Shanghai will pioneer the first measures to relax visa procedures for foreigners. The new program in Shanghai is expected to serve as a trial, to be later adopted nationwide in China. The visa process will be simplified for:

- Highly skilled talent (e.g. those sponsored by science & technology companies).

- Talent already possessing a foreign employment permit (Z visa).

- **Permanent residency** will be made available to foreigners working for companies with valid high-tech certificates and for those who meet annual income (RMB 600'000 annually) and individual tax payment (RMB 120'000 annually.[1]

To stimulate private investments and innovation, foreign students who have completed higher education requirements in China with the goal of establishing businesses and start-up investors are now eligible for a **"personal affairs - entrepreneurship visa"**. This measure is significant as the Exit-Entry Bureau has historically required at least two years of work experience for foreigners applying for any type of work-related visa. This will open the door for graduates and young entrepreneurs to gain Chinese visas. Regulations regulating internships of foreign students in China are also expected.

New "3 in 1" Business License and Mandatory Update

- The reform, enacted in October, combines business licenses, organization code certificates, and tax registration certificates into one certificate.

- Businesses operating in China must deregister business licenses, organization code certificates, and tax registration certificates and apply for a new certificate.

In Shanghai the change must be done for all companies in the next 2 years. Do not hesitate to get in contact for assistance on application for the new certificate.

Important Changes to China Tax Law in 2015

As part of the reforms, China's current leadership moves towards greater government efficiency and at the same time continues efforts to **close tax loopholes**. A series of adjustments have been put forth throughout 2015 to make the system more clear to businesses.

Recently, public notices have clarified which transfer pricing cases the tax authorities will place under greater scrutiny:

- For overseas transactions to qualify for corporate income tax deductions, it must be proven that the China-based organization gains an evident direct or indirect economic benefit from transfers between related entities.

- In the event of a bureau inspection, adequate substantiating proof of the transfer benefits must be provided.

However, a new set of measures (the General Anti-Avoidance Rules - GAAR) establish more **clear parameters for tax investigations**:

- Previously, tax avoidance investigations were conducted at the local level by tax authorities but without specifically disclosed procedures; the new GAAR mandates that investigations are conducted in a standardized fashion.

- Taxpayers are to be given 90 (60 days with 30 day extension eligibility) days to provide documents in their defense during anti-avoidance investigations.

- If the taxpayer objects to conclusions made by the tax authorities, they may submit their claim to the State Administration of Taxation (SAT). The SAT's comments will then be handed over to the local tax authority, and a final conclusion must be approved by the SAT.

- A new dispute-resolution system is put forth by the GAAR, requiring the SAT to coordinate between taxpayers and local tax authorities in the event of double taxation as a result of an anti-avoidance investigation.[2]

New measures have also been passed in relation to enterprises currently enjoying enterprise income tax preferences.

- These enterprises must now **judge on their own whether they conform** to the requirements outlined in the preferential tax policies. These enterprises must maintain and back up their own supporting data, and must report it to the tax authorities.

- Enterprises found by the tax authority to not be in compliance with policy will lose the tax preferences and required to pay applicable enterprise taxes and fines.

However, **R&D expenditures that enjoy "super deductions" are expanded** (150% of the R&D expenses can be deducted from company income therefore reducing the total tax burden). Among others, IP costs and costs of external R&D personnel are tax deductible. In addition, **3 years of past R&D expenses can be retroactively claimed** for 150% tax deduction!

Do feel free to get in touch with our finance department for answers and support on compliance with these new measures and for **evaluating if these changes may help reduce your costs.**

Overall, the 2015 developments in China's regulatory framework show that the intended shift from a tightly-controlled, centrally-planned economy to a more open, innovation-driven private economy is gradually underway.

Considering the vast extent of the transformation needed for China's "change of business model", more will certainly come and we look forward to further supporting you with information.

We also invite you to learn more about China's ever-shifting business ecosystem by reading our 2015 China Business Survey, comprised of responses from managers and decision-makers of over 750 companies in China. The 2015 China Business Survey is available for free viewing and download.