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Tax, Banking, and Market Updates (June 2009)
Writing Sample

Tax

Subsidies Available for International Outsourcing Service Sector

China ministries, beyond Jan. 09 incentives to support general outsourcing activity, have designated financial subsidies for Information Technology, Business Process, and Knowledge Process outsourcing enterprises to promote the development of the outsourcing service sector. Companies with outsourcing revenues of USD 1.5 million (70% rendered outside China), future outsourcing plans, and 70% plus junior college educated staff may qualify for subsidies to train employees and obtain international standards certification.

Enterprise Income Tax Guidance for Foreign & Domestic Real Estate Entities

China's SAT recently issued tax policy changes and clarifications in EIT Law under Guoshuifa No. 31 (2009) showing the administrations' focus on policy interpretation. The new measures aim to unify and increase internal consistency for foreign and domestic tax policy. The circular lowers pre-paid profit margins to ease cash flow for developers, clarifies self-use fixed assets versus for-sale goods to regulate revenues and liabilities, defines taxable costs, standardizes commission, stipulates Land Appreciation Tax deductions, and eases restrictions for accrued and deductible expenses.

Corporate Income Tax (CIT) Filing Clarifications for Headquarters and Branches in Different Locations

SAT newly requires CIT consolidation based on current year "three factor" taxable income to apply same CIT rates to headquarters and branches. Exceptions stipulated for preferential tax treatment enterprises, that can use different rates, and branches that cannot prove valid tax structure/status, that are then considered separate legal entities to pay CIT to local tax authorities. CIT liability miscalculations going forward should make next period adjustments.

Increased SAT Oversight on Individual Income Tax on Employment Income

State Administration of Taxation (SAT) will begin analysing 10 percent of registered accounts' individual income tax figures against salary expense, auditing enterprises with large discrepancies, focusing on company salary expense definitions, in-kind tax treatment benefits, and reported remuneration. Due to increasing tax authority oversight and audits, experts feel taxpayers should review compliance status and take voluntary remedial and proactive action, such as fulfilling local bureaus self-audit requests.

Critical Circular to Focus on Large Enterprise Tax Risk Management; Leaves Room for Wider Application

SAT's recent Circular 90, although 'not mandatory', is positioned to enforce SAT tax risk management and tax authority collaboration agendas by specifying non-compliance would 'probably' attract authorities resulting in possible enterprise and compliance tax increases. The circular aims to implement low cost, efficient internal control system improvements. Although currently only targeting 45 selected large enterprises, experts feel the ideas, environment, and language of the article clears the way for holistic application and enforcement, regardless of company size, structure, status, foreign or domestic.

Regulation Transition for Advanced and New Enterprise (ANTE) Preferential Income Tax Incentives

Companies previously covered under foreign and domestic Enterprise Income Tax (FEIT/EIT) regulation that maintain ANTE classification under new CIT law will be grandfathered their original incentives. For newly qualified ANTEs, new CIT Law stipulates a 15 percent reduced CIT rate, but requires specific annual reporting to its designated tax bureau before CIT filing deadline. Circular 203 clarifies general transitional and administrative issues for preferential tax policies, but is still unclear on certain transition measures.

Further Value Added Tax (VAT) Refund Rate Increases to Support China's Export Market

In an attempt to support China's dwindling export market, especially labor intensive production, new VAT refund rates, effective June 1, 2009, increased up to 15% on agriculture, electromechanical, glass, steel, and textile goods. The move follows previous increases, showing long-term government commitment to support the export industry. VAT refund policy requires application documents to be submitted to proper departments before the deadline; lack of documentation will assume export activity as domestic sale, receiving no refund.

Banking

New Residential Mortgage Programs Extend Loan Tenor, Reduce Rates for Older Properties

With strong investment activity in Hong Kong, BEA has increased its mortgage loan tenure added to property age requisite from 60 to 70 years. With a minimum loan tenure of 10 years, this allows 17.5% of Hong Kong's residential property market aged from 40 to 60 years to newly participate or lower rates in the program. BEA has also lowered lending rates to 2.25 and 2.5 percent below prime, leaving residents and investors optimistic about the secondary residential market. Hang Seng Bank and Citibank have initiated similar programs.

HSBC and Citibank Slash RMB Deposit Rates

With a slowing economy and fewer lending channels, foreign banks HSBC and Citibank 'following their business strategy' have cut RMB Deposit rates well below central bank benchmarks, a shift from previous competitive rates reflecting stronger multinational investment in China. HSBC's 1 and 1.2 percent two to five-year yuan deposits fall bellow the bank's 2.25 percent one-year deposit rate. Citibank with 1 percent two-year yuan deposits and 1.1 percent three-year yuan deposits also fall well below the central bank benchmark.

Market

Shanghai World Expo to cost US$ 45 Billion

Next year's World Expo in Shanghai will cost a projected US$45 Billion, more than previous Expos and last year's high profile Olympics in Beijing. Infrastructure projects plan to accommodate an estimated 70 million visitors and 185 countries already confirmed to attend; US participation still uncertain. The six-month international exhibition promotes inventions, national branding, and cultural exchange. With a slowed global economy and a US$61 million country pavilion cost, critics question the economic benefit for participants and Shanghai.

Shenzhen Special Economic Zone Proposed to be Expanded

Local Shenzhen legislators are working on a proposal for its' SEZ to include 'the whole city' to submit to the State Council for approval. Shenzhen SEZ along with Zhuhai, Shantou and Xiamen were established as special economic zones in 1970's and 80s reforms. There has been recent rapid creation and growth of SEZs along China's border and coastal regions. Shenzhen's plan expands its SEZ area almost 5 times and would allow key commercial and business expansion in the Pearl River Delta region. Local legislators feel Shenzhen's greater success as a SEZ, Beijing's previous decision to implement 'pilot comprehensive reforms' in the area, and a slowed economy warrant the change. Some analysts feel the move would rightly 'merge' the Hong Kong and Shenzhen economies.