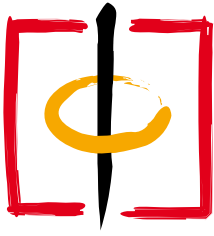
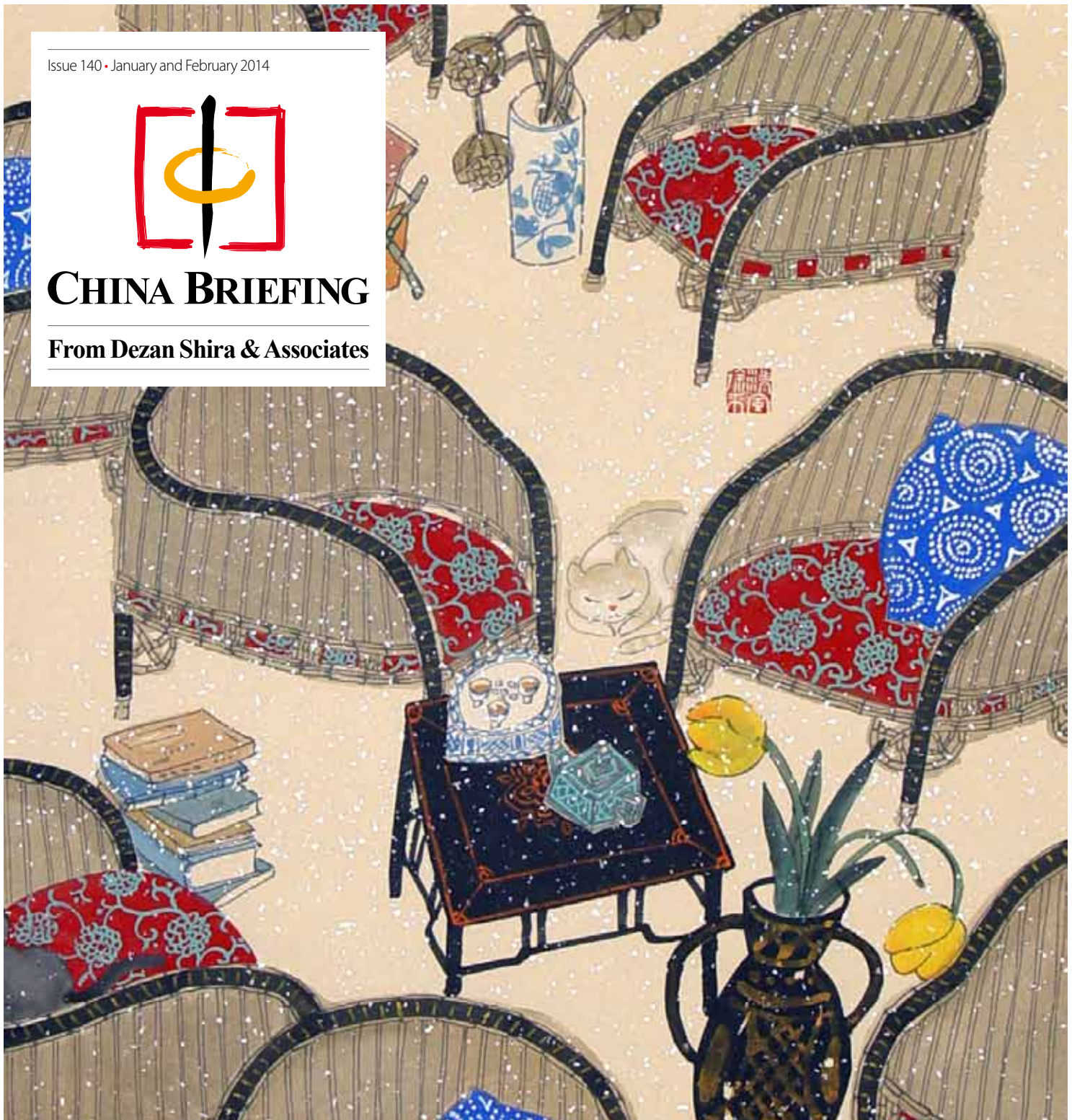


Issue 140 • January and February 2014



CHINA BRIEFING

From Dezan Shira & Associates



Annual Audit and Compliance in China

*p.*4 Annual Audit and Compliance Requirements for FIEs in China

*p.*9 Recap of Key 2013 Tax and Legal Updates

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Introduction



Welcome to the new issue of China Briefing, and an especially warm welcome to our readers for a prosperous New Year and a happy upcoming Chinese New Year of the Horse!

January and February are always busy times for company administration in China, with annual license renewals and updates to file, together with procedures for preparing your annual audited accounts for 2013. The past year might have been a turning point for China. After the smooth leadership transition that took place at the beginning of 2013, the new cabinet led by President Xi Jinping and Premier Li Keqiang has been trying to play the role of reformers by further opening up the Chinese market and bringing more foreign investments into

China. Thousands of administrative regulations were abolished by the State Council. Further, in November 2013, the Third Plenary Session of the 18th Central Committee of the Communist Party of China (CPC) revealed a series of comprehensive reforms which will be pushed in the following decade.

It is important for existing and potential investors to be aware of these ongoing changes. In this China Briefing issue we will discuss annual compliance requirements for foreign-invested enterprises, including wholly-foreign owned enterprises, joint ventures and foreign-invested commercial enterprises, as well as the less demanding requirements for representative offices. We will also highlight the changes that will significantly influence the way companies do business in China in 2014.

Kind regards,

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For Reference

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Winter Sunlight (冬日阳光)
Zhao Cheng Xiang (赵澄襄)
Chinese Painting, 66 x 66 cm
Wan Fung Art Gallery (雲峰畫苑)

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This Month's Cover Art

Annual Audit and Compliance in China

Contents



“All foreign-invested enterprises in China are required to carry out annual compliance procedures.”

p.4 Annual Audit and Compliance Requirements for FIEs in China

p.9 Recap of Key 2013 Tax and Legal Updates

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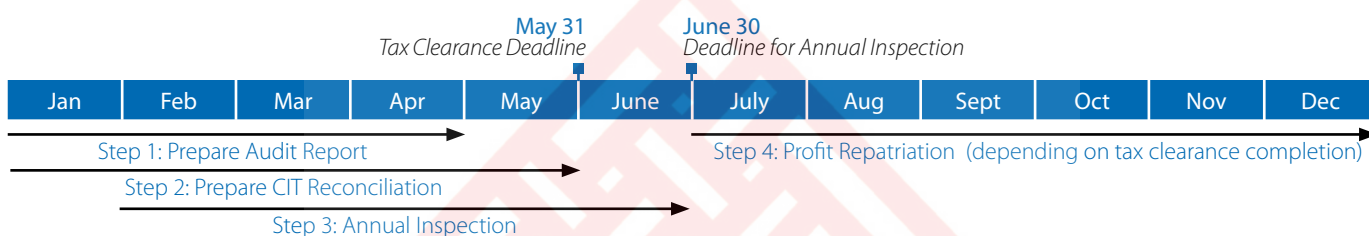
 **INDIA BRIEFING**

Annual Audit and Compliance Requirements for FIEs in China

– By Shirley Zhang, Dezan Shira & Associates

All foreign-invested enterprises (FIEs) in China are required to carry out annual compliance procedures as mandated by various governmental departments. It is crucial to be aware of the relevant deadlines as failure to carry out these procedures on time may result in extra expenses, penalties, or even revocation of business licenses. Tax compliance is especially important because an FIE can only repatriate profits to foreign investors after the Chinese tax bureaus are satisfied that all applicable taxes have been paid up. While tedious, this process is a good opportunity for companies to conduct an internal financial health check and to optimize tax efficiency, financial structure and processes, as well as internal control mechanisms for fraud prevention. In the following pages, we outline the steps for completing the annual compliance requirements in China.

Annual Compliance Timeline **Subject to regional variances*



Step 1: Prepare Audit Report

All FIEs (including wholly-foreign owned enterprises (WFOE), joint ventures (JV) and foreign-invested commercial enterprises (FICE)) are required to hire external accounting firms to conduct an annual audit of the company's financial reports. The audit report must be signed by a China-qualified Certified Public Accountant. The objective of a statutory audit is to ensure that companies meet Chinese financial and accounting standards, including proper use of Chinese GAAP (see accompanying box).

The requirements for the audit report vary by region. For instance, in Shanghai, companies must include a taxable income adjustment sheet in the audit report, which is not a necessary supplement in Hangzhou, Beijing, or Shenzhen. Usually, accounting firms start preparing an annual audit report in January, right after the company has closed the previous year's accounts. The audit procedure takes about two months, and the audit report should be completed before the end of April in order to meet the May 31 tax reconciliation deadline.

Step 2: Prepare Corporate Income Tax (CIT) Reconciliation

In China, CIT is paid on a monthly or quarterly basis in accordance with the figures shown in the accounting books of the company; companies are required to file CIT returns within 15 days from the end of the month or quarter. However, due to discrepancies between the accounting standards and tax laws in China, the actual CIT taxable income is usually different from the total profits shown in the accounting books. Meanwhile, CIT calculation should be in compliance with

Chinese GAAP

The Chinese Accounting Standards (CAS) framework is based on two standards: the Accounting Standards for Business Enterprises (ASBEs) and Accounting Standards for Small Business Enterprises (ASSBEs). For most enterprises established in China, ASBEs are generally adopted, which gives it a similar standing to the Generally Accepted Accounting Principles of the United States (U.S. GAAP) and International Financial Reporting Standards (IFRS) used globally. The current ASBEs were released in 2006 and came into effect January 2007. According to the IFRS foundation, the 2006 ASBEs "substantially converged with IFRS", and further convergence is expected in the future. Meanwhile, ASSBEs entered into force on January 1, 2013 to provide unified standards for small-scale enterprises and enhance their internal control. ASSBEs use ASBEs as a reference but are more similar to tax laws in terms of tax calculation methods, which significantly simplify the process of making adjustments between accounting standards and tax rules. Small-scale enterprises can choose to adopt ASBEs or ASSBEs.

tax law, not the accounting standards. As such, the State Administration of Taxation (**SAT**) requires companies to submit an Annual CIT Reconciliation Report within five months from the previous year's year-end to determine if all tax liabilities have been met, and whether the company needs to pay supplementary tax, or apply for a tax reimbursement. Generally, the Annual CIT Reconciliation Report must include adjustment sheets to bridge the discrepancies between tax laws and accounting standards.

FIEs that conduct frequent transactions with related parties should also prepare an Annual Affiliated Transaction Report on transfer pricing issues as a supplementary document to the Annual CIT Reconciliation Report. For companies declaring losses of more than RMB5 million, an audit report conducted by an external accounting firm is required to be attached to the CIT Reconciliation Report. Local tax bureaus release a guideline on CIT reconciliation every year around March. Taxpayers should carefully study the guideline because the specific requirements can differ by both year and region.

Tips for Enjoying Preferential Tax Policies

Currently, the Chinese government offers various preferential tax policies. However, there are often preliminary requirements and preferential treatments do not automatically apply, therefore it is important for taxpayers to follow the relevant procedures stipulated by the SAT or other relevant government departments. Here we provide some tips for self-review:

Double check record-filing procedure

Formality in China is important. SAT almost always requires preliminary record-filing at the local tax bureau before a company can adopt preferential tax policies, even if the company meets all the stipulated conditions. According to Guoshuifa [2005] No. 129 released by SAT in 2005, taxpayers who have not completed record-filing procedure are not entitled to tax reduction and exemption.

In some cases, a company may make certain tax deductions without completing the record-filing, and the tax bureau may not notice immediately. However, there is a high probability that they will discover it during the annual CIT reconciliation or value-added tax (**VAT**) examination process. If this occurs, the company can face the risk of having to make a large tax payment in a single tax period.

Prepare separate accounts for items enjoying preferential tax policies

In order to enjoy certain preferential tax policies, companies engaged in diversified businesses should be especially mindful that the SAT requires separate accounts to be prepared for the sales that meet the conditions for preferential treatment and those that do not. If the eligible sales cannot be clearly differentiated, they are not entitled to preferential treatment.

Obtain relevant certificates for qualification

There are usually special tax benefits for companies in encouraged industries such as high-tech and environmental protection. However, in most cases, even if a company does qualify, it still needs to obtain certificates from relevant government departments to show its specialty in technology, quality, and eco-friendliness to the tax authority.

Step 3: Annual Inspection

FIEs in China are required to undergo an annual cooperative inspection jointly conducted by several governmental departments of the State Council. These inspections are designed to ensure that FIEs conducting businesses in China are fulfilling the legal commitments they make to each of the departments. Each year from March to the end of June, the annual inspection is jointly hosted by the following governmental departments:

- Ministry of Commerce (**MOFCOM**)
- Ministry of Finance (**MoF**)
- Administration of Industry and Commerce (**AIC**)
- State Administration of Taxation (**SAT**)
- State Administration of Foreign Exchange (**SAFE**)
- Statistical Bureau

Certain parts of the cooperative annual inspection are just a formality, with the first 90 percent of annual compliance work involving annual reporting package preparation, and the last 10 percent involving submission at a one-stop service location where all relevant government departments check and approve the annual reporting package.

Note that the annual inspection required by the SAT is only a review of the tax registration certificate, and is different from the CIT reconciliation. The inspections of AIC and SAFE (**see below**) are usually more complicated than others and may require additional separate procedures being conducted. Regional variances also exist. WFOEs with branches should pay special attention to ensuring that their branches also undergo annual inspection.

Annual Foreign Exchange Reconciliation

All foreign exchange transactions in and out of China are strictly controlled by SAFE, the bureau under the central bank of China - People's Bank of China - that drafts rules and regulations governing foreign exchange and market activities, as well as supervises and inspects foreign exchange transactions. SAFE conducts an annual inspections of FIEs. Generally, all FIEs are required to complete a Statement of Foreign Investors' Equity in FIE to demonstrate the legality of a company's foreign currency inflow and outflow. Companies also need to hire an authorized Chinese CPA firm to issue a Foreign Exchange Annual Inspection Report based on their audit of the company's foreign exchange accounts. The company should then submit the report as well as its balance sheet and income statement to SAFE. The deadline for submitting all the required documents is June 30.

If an FIE fails to conduct annual foreign exchange reconciliation for two consecutive years, its License of Foreign Exchange Registration will no longer be valid, and its Foreign Exchange Registration will be revoked, which means the FIE will not be able to receive or disburse foreign exchanges through banks. It is therefore important for companies to go through the process correctly every year. SAFE usually provides guidelines on specific requirements around March or April each year.



Shanghai-located FIEs and FIE branches need to undergo separate annual examinations conducted by the AIC and SAFE, and submit documents in accordance with the notices released by the AIC and SAFE, respectively, at the beginning of every year.

Candice Zeng

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Dezan Shira & Associates
Shanghai Office

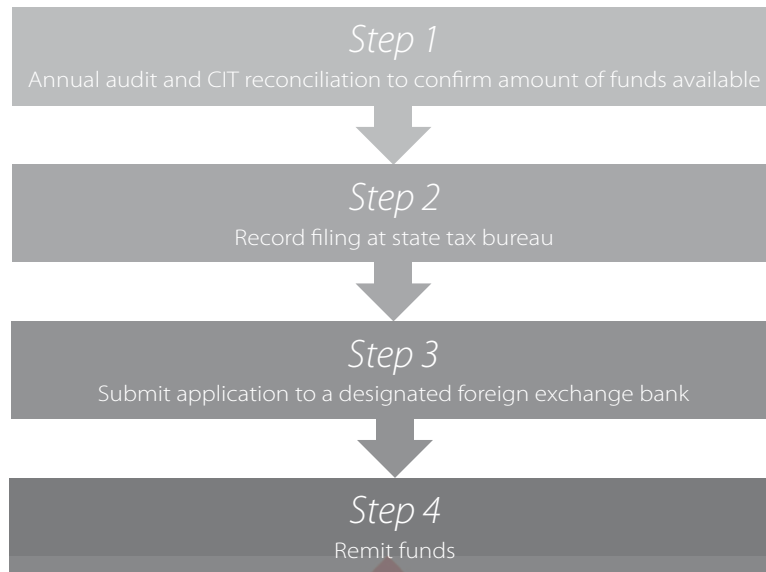
The relevant documents required for the annual inspection are:

- Annual inspection report
- Audit report issued by external accounting firm
- Financial statements of the previous year
- Certificate of approval for FIEs
- Business license
- Capital verification report
- Industry-specific license or permit
- Financial registration certificate
- Tax registration certificate
- Other forms or documentation required by relevant government departments

AIC Annual Reporting System

In October 2013, China's State Council decided to increase administrative efficiency by replacing AIC's annual inspection regime with an annual reporting system for FIEs, with the goal of enhancing companies' information disclosure to the public. Detailed regulations explaining and guiding the operation of the new annual reporting system are expected to be released around mid-February 2014. Hence it is still unclear whether the implementation of the annual reporting system will make the examination procedure easier or stricter for FIEs compared to the previous system of annual inspection.

Step 4: Profit Repatriation



Companies distributing profits should complete the reconciliation procedure in advance to leave sufficient time for shareholder companies to prepare for CIT compliance before the May 31 deadline. The submission of additional documents may also be required. In Shanghai, for example, a company should apply for a Letter of Notice for Profit Distribution of Domestic Enterprise issued by the local tax bureau after finalizing its CIT reconciliation. The company receiving the profits will need to attach this letter to its own CIT reconciliation report.

Previously, when remitting more than US\$30,000 in funds abroad, banks required the provision of a tax clearance certificate to prove that the correct amount of taxes has been paid before the funds can be remitted abroad. However, this requirement was cancelled under the *Announcement on Issues Concerning Tax Filings for Outbound Payments under Services Trade (Announcement 40)* issued by SAFE in conjunction with the SAT in July 2013.

Instead, individuals and institutions in China making outbound payments the value of which is the equivalent of more than US\$50,000 are now required to conduct record filing with the in-charge local offices of the State Tax Bureau (STB). Foreign investors reinvesting in China with income legally obtained from their direct investment in China in an amount that is the equivalent of more than US\$50,000 also need to complete a filing.

Under this records filing system, instead of having to apply for a tax payment certificate before they can make payments overseas, companies will only need to fill out a filing form and provide valid contracts or other relevant transaction documents (**Chinese translation required**) to the STB. The STB will affix a seal to the filing form, and companies will be able to remit funds outbound by submitting to banks the filing form and relevant transaction documents. Under the *Guidelines for the Administration of Foreign Exchange under Service Trade* and its detailed implementation regulations (Huifa [2013] No. 30, **Guidelines**) issued in conjunction with Announcement 40 by SAFE, such documents include:

- Annual financial audit report issued by a CPA firm;
- Board resolution on profit distribution; and
- Applicant's most recent capital verification report.

Verification of the documents and tax assessment will be conducted within 15 days after the STB receives these documents. Beijing STB explains that Announcement 40 does not change the tax withholding obligation, but merely simplifies the outbound payment procedure. Companies or individuals who are found to not have fulfilled their tax obligations or filing and registration requirements could face fines ranging from 50 percent to 500 percent of the unpaid tax.

Where the value of such funds is the equivalent of US\$50,000 or less, in principle, banks are not required to inspect and verify the transaction documents for profit repatriation. Exceptions apply when the nature of the funds are unclear, in which case banks will request the submission of transaction documents. Both Announcement 40 and the Guidelines came into force on September 1, 2013.

After receiving the bank's approval, the money can then be converted into foreign currency at the daily conversion rate against the RMB issued by the People's Bank of China and transferred directly to the foreign country from the FIE's bank account.

Annual Compliance for Representative Offices (ROs)

AIC Annual Inspection

ROs are required to complete an AIC annual inspection between March 1 and June 30. Generally, the following documents should be provided:

- Annual inspection report (the template will be distributed by AIC around March)
- Business registration certificate
- Proof of information on the legal status and standing of the headquarters overseas
- Audit report

The audit report of an RO will only be conducted on its incomes and expenses and is much simpler than that for other FIEs. It should also be signed by an authorized Chinese CPA firm and submitted to the AIC by the end of June. Penalties of RMB10,000 to RMB30,000 are applicable if the RO fails to provide its report on time, and an RMB20,000 to RMB200,000 penalty applies if the report includes false information. Failure to comply may also lead to license revocation.

CIT Reconciliation

ROs are also obliged to complete a tax reconciliation report of CIT as part of their annual compliance. The report should be submitted to its local tax bureau by May 31. Usually an audit report is not required for ROs paying CIT based on a deemed profit set by the local tax bureau. However, regional variations may exist.



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Why is successful audit & compliance crucial to an FIE's operations in China?

External audit is crucial to FIEs because it provides more accurate financial information, and a review through an outsider's eye can more effectively dig out flaws in the company's internal control and financial data. It is also a good tool to identify potential business risks.

Conducting annual compliances including CIT reconciliation, cooperative annual inspection, and specific AIC and SAFE inspections are required by Chinese laws and regulations. Failure to comply would not only result in penalties for the company, but also get the company on the black list of the corresponding government department, which could affect any future operations and investments of the company in China and lower the credit rating of the company in the eyes of the government.

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Recap of Key 2013 Tax and Legal Updates

– By Shirley Zhang, Dezan Shira & Associates

Key CIT Regulatory Updates

Caishui [2013] No. 70 – Additional Permissible R&D-related Deductions

China's SAT released Guoshuifa [2008] No. 116 (**Circular 116**) in 2008 to allow companies with research and development (**R&D**) activities to deduct relevant expenses from their CIT taxable income. Circular 70, which supplements Circular 116, came into effect at the beginning of 2013 and further expanded the scope of deductible R&D expenses. Currently, in addition to the ones stipulated in Circular 116, the R&D expenses listed below are also deductible from a company's CIT taxable income:

- Basic pension, basic medical insurance, unemployment insurance, work-related injury insurance, maternity insurance and housing funds contributed by the enterprise for employees directly engaged in R&D activities;
- Expenses for the operational maintenance, adjustment, inspection, and repair of instruments and equipment dedicated to R&D activities;
- Expenses for purchasing sample products or sample machines that do not constitute fixed assets, and general testing;
- Expenses for clinical trials of new drugs; and
- Expenses for authentication of R&D results.

Depending on location, it may be necessary to hire a CPA or CTA (Certified Tax Agent) firm to issue an audit or attestation report on the R&D expenses that are eligible for deduction.

SAT Announcement [2013] No. 19 - CIT Treatment on Cross-border Secondment of Expatriates by Non-Resident Enterprises

Announcement 19, which entered into effect on June 1, 2013, clarifies the CIT treatment of secondment of expatriates to China by foreign companies. According to Announcement 19, when a non-resident enterprise (**NRE**) dispatches personnel to China to provide services, and the NRE normally examines and assesses the performance of the dispatched personnel, and is wholly or partially responsible for their performance, the NRE will be deemed to have a place of business or an establishment in China. This means that the foreign company will be exposed to Chinese CIT on both incomes originating from China, and incomes that are obtained outside of China but have a substantial connection with the establishment in China. If a dispatching enterprise is a contracting country that has entered into a double taxation agreement (**DTA**) with China, and the establishment or place of business is relatively fixed and permanent in nature, it will be deemed a permanent establishment (**PE**) in China and the relevant DTA will prevail.

SAT Announcement [2013] No. 9 – Withholding Tax for NRE

Prior to the commencement of the value-added tax (**VAT**) in lieu of business tax (**BT**) pilot collection in 2012, the transfer of intangible properties such as land use rights, trademark, patent, non-patented technology, copyright and goodwill was subject to 5 percent BT imposed on the transferor. As such, when an NRE transferred intangible assets to a domestic company in China, the NRE was subject to 5 percent BT. The domestic company was required to withhold 5 percent BT and 10 percent CIT of the total royalty payment before the payment goes outbound. Since implementation of the VAT reform, the transfer of intangible assets is now subject to 6 percent VAT instead of BT. The domestic company is responsible for withholding the VAT from the payment in addition to CIT. According to Announcement 9, which came into effect on February 19, 2013, the amount of VAT paid is deductible from the tax base of the CIT.

SAT Announcement [2013] No. 41 - Treatment of Mixed Investments

Announcement 41, which clarifies the CIT treatment of incomes and expenses from mixed investments, came into effect on September 1, 2013. Mixed investment refers to investment that combines features of both equity investment and debt investment. Under China's CIT law, dividend income from equity investment is exempt from CIT for the recipient, but the dividends distributed cannot be deducted from the taxable income of the distributor. Returns on debt investments are considered interest income and taxable for the recipient, but is considered an interest expense for the distributor and deductible from their taxable income.

Announcement 41 clarifies that for eligible mixed investments, the investor and the investee could claim the returns on investment as interest income and interest expense, respectively. Therefore, the returns are taxable for the investor, and deductible from the taxable income of the investee.



Eligible mixed investments should meet these criteria: the investee must pay interest on a regular basis according to the interest rate agreed to in the investment contract or agreement, and must redeem the investment or repay the principal upon expiration of the investment period or the satisfaction of specific conditions. Meanwhile, the investor should not have any ownership over the net assets of the investee; should not have the right to vote or be elected; and should not participate in the daily production and operation of the investee.

An example of mixed investment is when a trust company collects money from institutional investors and individuals, and provides loans and investments to various projects in exchange for the investees' equity shares. The trust company usually does not have ownership of the investee's net assets, nor does it engage in any of the votes or daily operations of the investee. A trust financing contract usually has provisions stipulating fixed annual returns and buy-back deals which require the investee to purchase the equity shares back from the trust company at a premium after a certain number of years.

Key VAT Regulatory Updates

Caishui [2013] No. 106 - VAT Pilot Reform Expansion

On August 1, 2013, the VAT pilot reform was implemented nationwide, as formalized by the promulgation of the *Notice Concerning the Nationwide Adoption of VAT in lieu of BT Pilot Tax Collection Policy in the Transportation Industry and Certain Modern Service Industries* (Caishui [2013] No. 37, **Circular 37**) by China's Ministry of Finance (MOF) and SAT on May 24, 2013. In early December 2013, China's State Council revealed the further expansion of the VAT reform to the railway transportation and postal service industries, and the MOF and the SAT jointly released the *Notice Regarding the Inclusion of Railway Transportation and Postal Service Industries under VAT in lieu of Business Tax Pilot Reform* (Caishui [2013] No. 106, **Circular 106**), which came into effect on January 1, 2014, abolishing Circular 37.

Circular 106 specifies that an 11 percent VAT will be applied to railway transportation and postal service industries nationwide. Note that postal service industry refers to postal services provided by the wholly state-owned China Post Group. In addition, Circular 106 added space transportation service under transportation services, as well as included mail and package pickup and delivery services to the scope of logistics auxiliary service. Translation service is also newly specified as a type of consulting service.

The new regulation also altered the rules on leaseback services, providing relief to the financial leasing industry. Leaseback service, or sales-and-leaseback, refers to financial transactions where one party sells an asset to a financial leasing company and leases the asset back for long-term use. This arrangement helps improve the company's cash flow and financial performance. According to SAT Announcement [2010] No. 13 (**Announcement 13**), the lessee in a leaseback service is not subject to VAT or BT. However, Circular 37 released earlier this year stipulates a 17 percent VAT charge on the entire leasing fee received by the providers of tangible property leasing services, which significantly raised the tax burden for financial leasing companies. Circular 106 relieves this burden by allowing financial leasing companies to deduct the cost of the tangible movable asset from the leasing fee before calculating tax.

Circular 37 allowed VAT exemption for offshore outsourcing services provided by companies located in certain cities of China and scheduled for this exemption to expire at the end of this year. Circular 106 extends the validity period to December 30, 2018, and expands it to include all pilot taxpayers. It also provides the detailed scope of eligible services.

Furthermore, Circular 106 removes the prejudicial tax treatment of foreign shipping companies that existed under Circular 37. Chinese law requires foreign shipping companies to use either wholly-owned subsidiaries or third-party agents to collect ocean freight, while Chinese shipping companies can charge shippers directly without engaging a freight forwarder. Under the previous BT regime, freight forwarders were allowed to deduct international freight from their taxable income. However, under Circular 37, this deduction was not permitted. Instead, freight forwarders were required to pay a 6 percent VAT charge, as well as local surcharges (including the urban maintenance and construction tax, education levy and local education levy) on gross proceeds collected from clients, which meant the foreign shipping companies ended up bearing a higher tax burden than Chinese shipping companies. In Circular 106, the deduction of international freight from the taxable income of freight forwarders is once again allowed, which brings the cost of foreign shipping companies back to the same level as domestic shipping companies.

Other Legal and Regulatory Alerts

Consumer Rights Protection Law

The new *Consumer Rights Protection Law* provides more protection for consumers. Previously, consumers had the burden of proof to show the defects of the products or services purchased. The new law shifts the burden of proof from the consumer to the seller for six months after the products or services are provided (the privilege expires after six months). It also confirms the right of rescission for consumers on products purchased via internet, television, phone or mail, which means the customers have the right to return most products without any specific reasons within 7 days of receiving them. Additionally, the new law adds heavier obligations for online transaction platform

providers. They will be held liable in a dispute if they cannot provide the real name, address and effective contact information of a seller to consumers of online purchases. It also increases the punitive damages for conducting fraudulent acts in a transaction at three times the original price. The new law will come into effect on March 15, 2014.

Business Transactions Reporting Requirement

China's State Council amended the *Measures on the Report of Statistics of Balance of International Payment (State Council Order 642)* in November 2013, which entered into force on January 1, 2014. The Measures require individuals and entities including FIEs and ROs in China to report not only all economic transactions (including the purchase and sale of commodities and services, giving and receiving endowments, and making and receiving investments) they conduct with non-residents in China, but also all of their foreign financial assets and liabilities under the supervision of SAFE. The new Measures also impose new obligations on non-residents of China, including foreign individuals and entities, to report to SAFE through the processing bank about their economic transactions with Chinese individuals and entities, including FIEs and ROs, in China. Detailed requirements are expected to be released in 2014.

Amendment of Company Law

In October 2013, China's State Council decided to ease company registration requirements by lowering registered capital requirements, reducing costs of incorporation, and loosening registration principles. In the following month, the State Administration of Industry and Commerce confirmed that the new policies also apply to FIEs in China. On December 28, 2013, the Standing Committees of the National People's Congress, the legislative organ of China, passed the decision to revise the *Company Law*. The new law will come into effect on March 1, 2014. We highlight some of the key revisions below:

- The minimum registration capital of RMB30,000 for limited liability companies, as well as the RMB100,000 minimum for single shareholder companies and the RMB5 million minimum for joint stock companies will be cancelled;
- There will be no mandatory ratio of the initial payment and deadline for full payment of registered capital;
- The actual capital contributions of the company will no longer be required for incorporation. The current *Company Law* requires 20 percent of the registered capital to be paid in full upon company registration;
- Company registration based on actual capital contributions will be replaced by company registration based on subscribed capital contributions, which means it will be unnecessary to actually have the funds at the time of registration. The shareholders of the company (the founders) will decide on the amount, method, and deadline for subscription of contributions at their discretion, and will be responsible for the authenticity and legitimacy of the contribution.

Additionally, the requirements for location of the business upon company registration will also be lowered. For example, Zhejiang AIC introduced in late November that in e-commerce, an independent "secretary company" may be used as a virtual business location for the purpose of business registration and administration.

Other Updates

China's Minister of Finance Lou Jiwei introduced the plan for further fiscal and tax reform of China in an interview in November 2013, commenting that the initial reform of the consumption tax system will include adjustment of its scope and tax rate. The reforms aim to make consumption tax more functional with respect to adjusting high energy-consumption, high pollution products and certain luxury goods.

Another important act that could affect foreign investors is the cleaning up of existing preferential tax policies. Minister Lou expressed that regional tax incentives that have been proven to have positive effects will be applied nationwide and all preferential tax policies will be enacted through a unified system constituted by specialized tax laws and regulations instead of local government. These changes raise the question over whether existing regional development zones will lose their competitiveness in attracting investments, since they may no longer be able to offer special tax treatments.



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