In the Executive Meeting of the State Council held on 28 July 2017, China’s Premier Li Keqiang announced a new plan (the Plan) to further attract foreign investments, including tax deferral/exemption treatment on dividend income reinvested into China.

Highlights of the Plan are:

• Deferral or exemption of withholding tax on dividend income if a foreign investor reinvests the dividend directly in “encouraged” projects¹ in China. Under the current Corporate Income Tax (CIT) Law, a dividend declared to a foreign investor is subject to a 10% withholding tax, unless otherwise reduced by a tax treaty.

However, no details have yet been issued to clarify how the deferral or exemption applies and what projects would qualify as “encouraged” projects. China’s State Administration of Taxation (the SAT) may issue clarification and guidance on this topic.

• The tax incentives for a technology advanced service company (TASC) will be rolled out nationwide² in China with the following tax incentives:

  − A reduction in the CIT rate from 25% to 15%.
  − An increase in the employee education expense deduction limitation of total salaries and wages from 2.5% to 8%.
China will issue further guidance to eliminate or reduce the investment restrictions for foreign investors in certain manufacturing and service industries. The local government will be encouraged to enact measures to attract the regional headquarters of multinational companies.

To make China more appealing to foreign talent, the Government will simplify the work permit requirements and extend a validity period.

According to the State Council Executive Meeting, the Plan would be implemented by the end of September 2017. Companies are recommended to closely follow the developments and take action accordingly, in particular, companies that have a reinvestment plan in China may consider holding off the implementation until the SAT issues more clarifications.

Endnotes


2. The TASC incentives are currently only available in the designated cities in China. See EY Global Tax Alert, *China extends preferential technology advanced service company tax treatment to 10 more locations*, dated 17 November 2016.
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