China Tax & Investment Express (CTIE)* brings you the latest tax and business announcements on a weekly basis. CTIE provides a synopsis of each announcement including a link that leads you to the full content of the announcement (in Chinese). Please feel free to contact your EY client service professionals for further assistance if you find the announcements have an impact on your business operations.

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Business circulars

► The Communist Party of China concluded the 19th National Congress

Synopsis

The Communist Party of China (CPC) convened the 19th National Congress (hereinafter referred to as the “meeting”) at the Great Hall of the People in Beijing on 18 October 2017 till 24 October 2017. Some possible changes of the economic policy and the strategy of the future development were revealed at the meeting, which shall have a far-reaching influence on China’s economic situation in the next few years.

On 18 October 2017, the General Secretary Xi Jinping delivered a political report (hereinafter referred to as the “report”) at the meeting presenting the achievements since the 18th National Congress and set forth a few guidance from the perspective of further economic development of China.
Key messages related to business and tax were mentioned in the report as follows:

| Deepening the “Supply-side structural reform” (深化供给侧结构性改革) | ▶ Focus on the development of real economy  
▶ Expedite the development of manufacturing industries  
▶ Foster new growth drivers  
▶ Encourage the transformation and upgrade of traditional industries  
▶ Promote the development of certain industries to become part of the global high-end value chain  
▶ Strengthen the construction of infrastructure network  
▶ Encourage innovation and entrepreneurship |
| --- | --- |
| Developing China towards being an innovation-oriented country | ▶ Improve application of fundamental research and expand the development of national key science and technology projects  
▶ Deepen the reform of science and technology systems  
▶ Promote creative culture, enhance the protection and application of intellectual property  
▶ Develop high-end talents in science and technology sector |
| Revitalization of villages | ▶ Prioritize agriculture and rural development  
▶ Solidify and improve the basic rural operation systems  
▶ Maintain and stabilize land contract relationships  
▶ Deepen the reform of rural collective property rights systems  
▶ Build up modern agricultural industrial systems  
▶ Promote convergence amongst the primary, secondary and tertiary industries in rural areas |
| Carrying on the coordinated regional development strategy | ▶ Further support the development of old revolutionary base areas, areas inhabited by the minority nationalities, border areas and distressed areas  
▶ Promote the development of western regions while transforming the economic growth pattern  
▶ Promote the development of old industrial bases in Northeast regions, etc.  
▶ Promote the development of the Central regions  
▶ Optimize the development of the Eastern regions  
▶ Promote the coordinated development of the Beijing-Tianjin-Hebei region and build up Xiong’an New Area with high standards  
▶ Support the transformation of resource-base regions |
| Accelerating the improvement of the socialist market economic system | ▶ Deepen the reform of state-owned enterprises  
▶ Fully implement the negative list approach for market access  
▶ Clean up and revoke all regulations and practices that may hinder the integration of markets and fair competition  
▶ Deepen the reform of the business registration system  
▶ Deepen the reform of investment and financing mechanism  
▶ Deepen the reform of tax system and improve the system of local taxes  
▶ Deepen the reform of the financial system  
▶ Improve the financial supervision system |
Our observations

Although it may still take a long time to translate everything into concrete policies, the above report laid out guidance for the CPC’s work in all major policy sectors for the next five years. We summarize below certain tax-related information in the report which may unveil the possible trend of the upcoming tax reform:

► “As socialism with Chinese characteristics has entered into a new era, the principal contradiction facing the Chinese society has been evolved into an unbalanced and inadequate development and the people’s ever-growing needs for a better life.”

It is reasonable to speculate that taxation will be used as a major countermeasure to adjust the “unbalanced and inadequate development” which may include the imbalanced social and economic developments of different regions as well as social classes. In this respect, the Chinese government may continue to implement preferential tax policies on a regional basis to support the development of underdeveloped areas such as the Central and Western regions. On the other hand, the public has high hope for the reform of Individual Income Tax (IIT) which would tax people not only based on different income categories but also on an integrated basis (综合与分类相结合税制). The IIT reform is anticipated to allow IIT to play a more important role on readjustment of income distribution.

► “Clean up and revoke all regulations and practices that may hinder the integration of markets and fair competition.”

In recent years, the State Council, State Administration of Taxation as well as tax authorities at the local level have been cleaning up tax-related items (which should now be subject to record filing procedures instead of administrative approval) and tax rules/regulations (which contradicted with the prevailing rules/regulations). It is anticipated that the government authorities shall continue to clean up items subject to administrative approval as well as tax rules/regulations which should be revoked. In the meantime, it is also anticipated that the tax authorities shall strengthen the relevant interim and ex-post supervision and improve the relevant tax service function.

► “Building of a modern fiscal system should be accelerated and a relationship should be built between the central and local finance with clear distribution of rights and responsibilities, with coordination of financial resources and balance of regions. Tax system reform should be deepened and the system of local taxes should be improved.”

Under the current tax sharing system (分税制), local tax authorities are responsible for tax administration and collection of Corporate Income Tax of certain enterprises and public institutions, IIT, Resource Tax, Stamp Duty, City Construction Tax, Real Estate Tax, Urban Land Usage Tax, Deed Tax, Land Appreciation Tax, Vessel and Vehicle Tax, Tabaco Tax and Environmental Protection Tax, etc. Among these, the next round of tax reform would cover IIT, Real Estate Tax, Resource Tax, and Environmental Protection Tax. It is anticipated that the reform of the abovementioned taxes will further adjust the balance between central and local finance which will be critical for development of local economy.
It is also worth noting that the report mentioned full implementation of the “pre-establishment national treatment plus negative list approach” as well as deepening of reform for the business registration system. We will keep an eye on any further development closely in this regard, so please stay tuned.

You can click this link to access the full content of the relevant official information related to the 18th National Congress:
http://www.gov.cn/zhuanti/19thcpc/index.htm

You can click this link to access the full content of the Report:
http://kj.jiyuan.gov.cn/jrkj/redian/201710/t20171019_348589.html

Notice regarding granting target cuts to qualified financial institutions (Yinfa [2017] No. 222)

Synopsis

Premier Li Keqiang chaired a State Council executive meeting on 27 September 2017, which discussed and drew up financial policies for easing the financing difficulties of small and micro-sized enterprises (“SMEs”) so as to support the healthy development of substantial economy.

In response, on 12 October 2017, the People’s Bank of China released a circular, i.e., Yinfa [2017] No. 222 (“Circular 222”) to support the development of “inclusive” financial services by granting target cuts to qualified financial institutions (hereinafter referred to as “Target Cuts Policy”).

Key features of Circular 222 are as follows:

Scope of loans covered by the Target Cuts Policy

Currently, China grants cuts to reserve requirements for banks that focus on lending to SMEs and the agricultural sector. Circular 222 further expands the scope of loans to cover the loans granted for the sake of inclusive finance, including:

- Loans to small businesses with each granted less than RMB5 million
- Loans to micro-sized enterprises with each granted less than RMB5 million
- Loans to self-employed industrial and commercial households for business operations
- Loans to SMEs for business operations
- Loans to farmers for agricultural production
- Guarantee loans for startups (involving laid-off and unemployed personnel)
- Loans for supporting the poor and education

Scope of financial institutions covered by the Target Cuts Policy

Financial institutions covered by Circular 222 include:

- State-owned commercial banks
- The Postal Savings Banks of China
- Joint-equity commercial banks
- City commercial banks
- Non-county rural commercial banks
- Foreign-funded banks
Requirements and the relevant target cuts

Circular 222 specifies that the target cuts shall be granted to financial institutions that meet the relevant requirements for lending.

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<thead>
<tr>
<th>Requirements</th>
<th>Target cuts</th>
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<tr>
<td>Conforming to the macro-prudential operation standards, i.e., macro-prudential assessment (MPA) rating shall be at Grade B or above for no less than three quarters (inclusive) of the last year</td>
<td>The reserve requirement rate (RRR) shall be cut by 50 basis points (i.e., 0.5%)</td>
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<tr>
<td>Loans to the designated groups account for 1.5% of outstanding loan balance or newly added loans for the previous year</td>
<td>The RRR shall be cut by 150 basis points (i.e., 1.5%)</td>
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<tr>
<td>Loans to the designated groups account for 10% of outstanding loan balance or newly added loans for the previous year</td>
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Effectiveness

The Target Cuts Policy shall take effect from the year 2018. According to Circular 222, the initial assessment to be conducted at the beginning of year 2018 regarding the loans granted to the designated “inclusive finance” groups shall adopt the relevant data of the year 2017.

You can click this link to access the full content of Circular 222: http://www.pbc.gov.cn/zhengwugongkai/127924/128038/128109/3399244/index.html

Customs circular

Public notice (PN) regarding regulating the transportation under customs transit procedures (GAC PN [2017] No. 48)

Synopsis

In order to extend the promotion of the nationwide integration of customs clearance procedures, the General Administration of Customs (GAC) released GAC PN [2017] No. 48 (“PN 48”) on 11 October 2017 to further regulate the transportation under customs transit procedures (转关运输, hereinafter referred to as “transit transportation”).

Key points of PN 48 are as follows:

- For the following goods, consignees or consigners shall apply to the relevant customs to go through the customs transit procedures in the mode of intermodality (多式联运) with reference to connecting transit (联程转关) mode:
  - Goods under intermodality mode
  - Imported/exported goods with bills of lading covering the entire journey and for which, the means of transportation shall be changed within the territory of the PRC
  - Where the imported solid wastes satisfy certain requirements, the consignees and consigners of such wastes shall apply to go through customs formalities by adopting the mode of transit transportation upon the approval of the relevant customs;
Where it is inappropriate to check and inspect the imported/exported goods in areas under port customs supervision, the consignees and consigners of these goods shall go through customs formalities by declaring in advance at the Customs upon approval of their supervising Customs, provided that certain requirements are fulfilled. Supervising Customs refer to:

- Customs at the place of designation for imported goods
- Customs at the place of departure for exported goods

For the following goods/commodities, the consignees and consigners shall apply to Customs in accordance with the prevailing regulations to go through customs formalities in the mode of transit transportation:

- Mails
- Express mails
- Temporarily imported and exported goods (including goods under the ATA carnet)
- Transit goods
- Goods carried by China-Europe express trains
- Goods exported through market procurement trade
- Cross-border e-commerce retail import/export commodities
- Duty-free goods
- Goods of diplomatic organs and permanent establishments as well as their staff members for public/private use

PN 48 clearly states that the Customs will not accept applications filed for transit transportation except as expressly set forth above. Enterprises should get familiar with PN 48 and comply with the relevant provisions when adopting the mode of transit transportation. If in doubt, consultations with professionals are always recommended.

PN 48 will become effective on 1 January 2018.

You can click this link to access the full content of PN 48:

Another tax related circular recently announced by a central government authority:

- Reply to issues related to invoice issuance for the sales of temporarily-stored state-owned grain by taxpayers (Shuizonghan [2017] No. 422)
  http://hd.chinatax.gov.cn/guoshui/action/GetArticleView1.do?id=8133457&flag=1
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