

# China Tax Regulation Update

## August 2011

Circular Number	Issuance Date	Effective Date	Topic	What is new?
SAT Decree [2011] No. 34	2011-6-9	2011-7-1	Corporate Income Tax ("CIT") related issues	<p>This Regulation covers the following topics:</p> <ul style="list-style-type: none"><li>• Under CIT Law, interest expenses for loans from non-financial institutions are deductible only within the limit of "comparable interests" that would be charged for loans from financial institutions. The Regulation provides details as to how to determine "comparable interests".</li><li>• Tax treatments for capital reduction or withdrawal. For investors, the withdrawal shall be divided into three parts: investment cost withdrawal, dividends and capital gains. There are different tax treatments for each part.</li><li>• Detailed rules are provided for depreciation treatments of building/construction renovation and expansion.</li><li>• Valid supporting documents (tax invoices) for costs and expenses shall be ready before the annual CIT declarations in order to be deductible.</li><li>• Costs for uniform clothing for employees are deductible business expenses.</li></ul>
SAT Decree [2011] No. 36	2011-6-22	2011-1-1	CIT treatment for investment in treasury bonds	<p>This regulation provides detailed rules for calculating tax exempted interest income from treasury bond investment and taxable capital gains from disposal of treasury bonds.</p>
SAT Announcement	2011-6-22	2010-12-30	Notice regarding the Tax Information Exchange Treaty with	<p>China and BVI signed the Treaty and the Protocol on 7 December 2009. The Treaty and Protocol became effective on 30 December 2010 and are applicable to</p>

# China Tax Regulation Update

[2011] No. 37			BVI and the relevant Protocol	taxable income obtained since 1 January 2011. The enforcement of the Treaty and the Protocol will facilitate tax information exchange between tax authorities of China and BVI.
State Council Decree No. 600	2011-7-19	2011-9-1	Implementing Rules of Individual Income Tax Law Amended	<p>Monthly deduction for expatriates remains the same.</p> <p>Before the amendment, the monthly standard deduction for expatriates is RMB 4800 = RMB 2000 (for Chinese local tax payers) + additional deduction of RMB 2800 (for expatriates).</p> <p>After the amendment, the monthly standard deduction for expatriates is RMB 4800 = RMB 3500 (for Chinese local tax payers) + additional deduction of RMB 1300 (for expatriates).</p> <p>For further background information on this topic, please find our China Tax Regulation Update of July 2011:</p> <p><a href="http://www.cms-china.info/insight/2011/07/China-Insight-Tax.html">http://www.cms-china.info/insight/2011/07/China-Insight-Tax.html</a></p>
State Council Tariff Committee Circular [2011] 13	2011-6-24	2011-8-1	Free Trade Treaty between China and The Republic of Costa Rica	<p>The Free Trade Treaty became effective on 1 August 2011. This is the 10<sup>th</sup> Free Trade Treaty concluded by China.</p> <p>The Free Trade Treaty provides more favourable import tariff rates than those available under the WTO framework.</p>
SAT Announcement 2011 No.41	2011-7-25	2011-7-25	Individual Income Tax for disposal of operational investment	The regulation clarifies that all kinds of payments received by an individual (in the name of share price, compensation, default penalties, etc.) for disposal of investment shall be included in the calculation of the

# China Tax Regulation Update

				capital gains.
Circular Caishui [2011] 58	2011-07-27	2011-1-1	CIT incentive for qualified investment in Western China	From 1 January 2011 to 31 December 2020, enterprises registered in Western China which are classified as encouraged enterprises are entitled to a reduced CIT rate of 15%. Encouraged enterprises shall fall within the Catalogue of Encouraged Industries for Western China which will be issued at a later time.
SAT Announcement [2011] No.45	2011-7-27	2011-9-1	Administrative Measure on Tax Resident Enterprises ("TREs") Registered Off-shore but Controlled by a Chinese Enterprise or Enterprise Group	<p>Under the PRC Corporate Income Tax Law, foreign enterprises will be regarded as TREs if their effective management is located in China.</p> <p>The Measures provide detailed rules regarding competent tax authorities, procedures of recognition of TRE status, tax registration and de-registration, declaration, accounting, etc.</p> <p>It is not clear whether the same rules will also be applied to foreign enterprises controlled by Chinese individual tax residents if such foreign enterprises are managed from China.</p>
SAT Announcement [2011]No. 46	2011-7-29	2011-9-1	Issues regarding the amended Individual Income Tax Law	This regulation clarifies that the amendments to the IIT Law and its Implementing Rules (new tax rates and monthly deduction) shall apply to income actually received after 30 August 2011 .

# China Tax Regulation Update



*This information is provided for general information purposes only and does not constitute legal or professional advice. Copyright by CMS, China.*

For further information, please contact:

**Charlie Sun**

Head of Tax Practice Area Group

E [charlie.sun@cmslegal.cn](mailto:charlie.sun@cmslegal.cn)

T +86 21 6289 6363

F +86 21 6289 0731