

July 2012

Circular Number	Issuance Date	Effective Date	Topic	What is new?
SAT Announcement [2012] No. 30	2012-6-29	2012-6-29	Determining "beneficiary owners" under Double Taxation Treaties	<p>On October 27, 2009, the State Administration of Taxation ("SAT") issued the <i>Tax Circular regarding How to Understand and Determine "Beneficiary Owners" under the Double Taxation Treaties</i> (Guoshuihan [2009] No.601). In the Tax Circular, the SAT not only provides a definition for "beneficiary owners", but also a list of factors which are unfavourable to an applicant to be identified as a beneficiary owner under the Double Taxation Treaties ("DTT").</p> <p>The SAT issued this Announcement to further clarify the determination of "beneficiary owners". The Announcement stresses that the beneficiary owner status of a resident of the contracting country under the DTT shall not be determined negatively or positively only due to the existence of certain unfavourable factors or the absence of the "purposes of tax evasion or reduction, profit transfer or accumulation".</p> <p>According to the Announcement, a resident of the contracting country shall be directly identified as the beneficiary owner of the China-sourced dividend incomes, if the resident of the contracting country is a listed company in that contracting country, or the resident is 100% directly or indirectly owned by another listed resident company of the contracting country and such dividend incomes are derived from the shares held by the listed company.</p>

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				In addition, when an applicant designates an agent to receive China-sourced incomes, no matter whether the agent is a resident of the contracting country, this arrangement shall not affect the applicant to be identified as the beneficiary owner. But the agent shall declare to the tax authorities that it is not the beneficiary owner of the relevant incomes.
Circular Cai Kuai [2012] No.13	2012-7-5	2012-7-5	Accounting treatment polices related to the VAT pilot reform	<p>The Ministry of Finance ("MoF") issued the Circular for the purpose of stipulating the accounting treatments relating to the Value-added Tax ("VAT") pilot reform in China.</p> <p>According to the Circular, new accounts shall be created to meet the changes brought by the VAT pilot reform. In addition, the accounting treatments related to the VAT pilot reform are also stipulated in the Circular, including the treatments on the retained input VAT, the credit of the VAT tax-control devices and the related technical maintenance fee against the VAT payable, the pilot VAT payer balance taxation policy and etc.</p>
Circular Cai Fa [2012] No.8	2012-7-13	2012-9-1		<p>The MoF and the SAT jointly issued the Circular to explain the stipulation in Article 7 of the <i>PRC Implementation Rules of the Provisional Regulations on Consumption Tax ("CT")</i>: "CT shall not be levied on the taxable consumer goods, if they are sold directly after being retrieved from contracted processing."</p> <p>According to the Circular, this stipulation only applies to the situation when the contracting party directly sells taxable consumer goods at a price no higher than the selling price adopted by the processing party for CT</p>

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				purposes. Otherwise, CT shall be levied on the taxable consumer goods sold by the contracting party, but the CT previously withheld and paid by the processing party can be deducted.
News report (http://finance.people.com.cn/2012/0726/c153180-18604103.html)			Update on VAT pilot reform in China	<p>According to the news report, on July 25, 2012, the State Council announced that starting from August 1, 2012 till the end of the year, the pilot VAT reform will be expanded from Shanghai to 10 provinces and cities, including Beijing, Tianjin, Jiangsu Province, Zhejiang Province, Anhui Province, Fujian Province, Hubei Province, Guangdong Province, Xiamen and Shenzhen. In addition, the sectors of services to be covered by the VAT pilot reform may be further extended.</p> <p>The Shanghai VAT pilot reform started from January 1, 2012 and covers the sectors of transportation services, R&D, technology transfer and technical services, IT technology services, design services, logistic services, lease of movable tangible assets and certification, authentication and consulting services.</p>

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