

The Third Plenum Decision's Blueprint for China Fiscal and Tax Reforms

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Speaker

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David Wu is a partner in PwC China, specialising in assurance and advisory services for banking and capital markets clients. He is a member of the Firm's Management Board, and also holds the following leadership roles: Beijing Senior Partner, North China Markets Leader, and China Government and Regulatory Affairs Leader.

David was a key player in developing and executing the roadmap for reforming China's state-owned banks in 2003. He was one of the lead partners advising Bank of China on its reforms from 2003 to 2006, assisting with the resolution of problem assets, recapitalisation, introduction of strategic investors, and the bank's successful IPO. He also led the audit for the Postal Savings Bank of China and helped the bank complete its corporate restructuring in 2011.

In 2008 and 2009, David was seconded to the UK FSA, serving in the Director's Office of the Banking Sector. There, he was responsible for analysis of the causes behind the global financial crisis, as well as regulatory and accounting issues.

David works closely with the ministries and government agencies that oversee China's accounting profession, financial services industry and capital markets. He has in-depth understanding of the Chinese regulatory and market landscape, as well as the latest developments in China's accounting industry.

David writes often on corporate governance, accounting and auditing for China's leading financial magazines and newspapers, including Caijing, New Century and China Accounting News. He is the author of Walking in the Forefront of Accounting and Banking Reform.

David is a visiting professor at the University of International Business and Economics in Beijing and an adjunct associate professor at the Chinese University of Hong Kong.

David is a member of the Association of Chartered Certified Accountants (ACCA), the Hong Kong Institute of Certified Public Accountants (HKICPA), the Chinese Institute of Certified Public Accountants (CICPA), and the American Institute of Certified Public Accountants (AICPA).

David graduated with a bachelor's degree from Hangzhou Institute of Commerce in 1985 and a master's degree from University of International Business & Economics in 1988.

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Matthew Mui

Leader of National Tax Policy Services

Matthew Mui has over 20 years' experience in providing China tax and business advisory services to multinationals, Chinese domestic and Hong Kong enterprises covering a wide range of industries. He started his tax professional career from Hong Kong, and on July 2000 he was admitted as partner to the Beijing office of PwC China.

With his extensive experience, he is now leading China/Hong Kong National Tax Policy Services. He supports our TAX Practice of PwC China nationally in respect of capturing the latest tax and business regulatory developments, exploring tax efficiency opportunities for clients, and sharing professional experience with the Practice members. He has very close working relationship with all the key departments of the Chinese State Administration of Taxation (SAT). In particular, he is often invited to offer views and recommendations in the course of its state tax policy formulation.

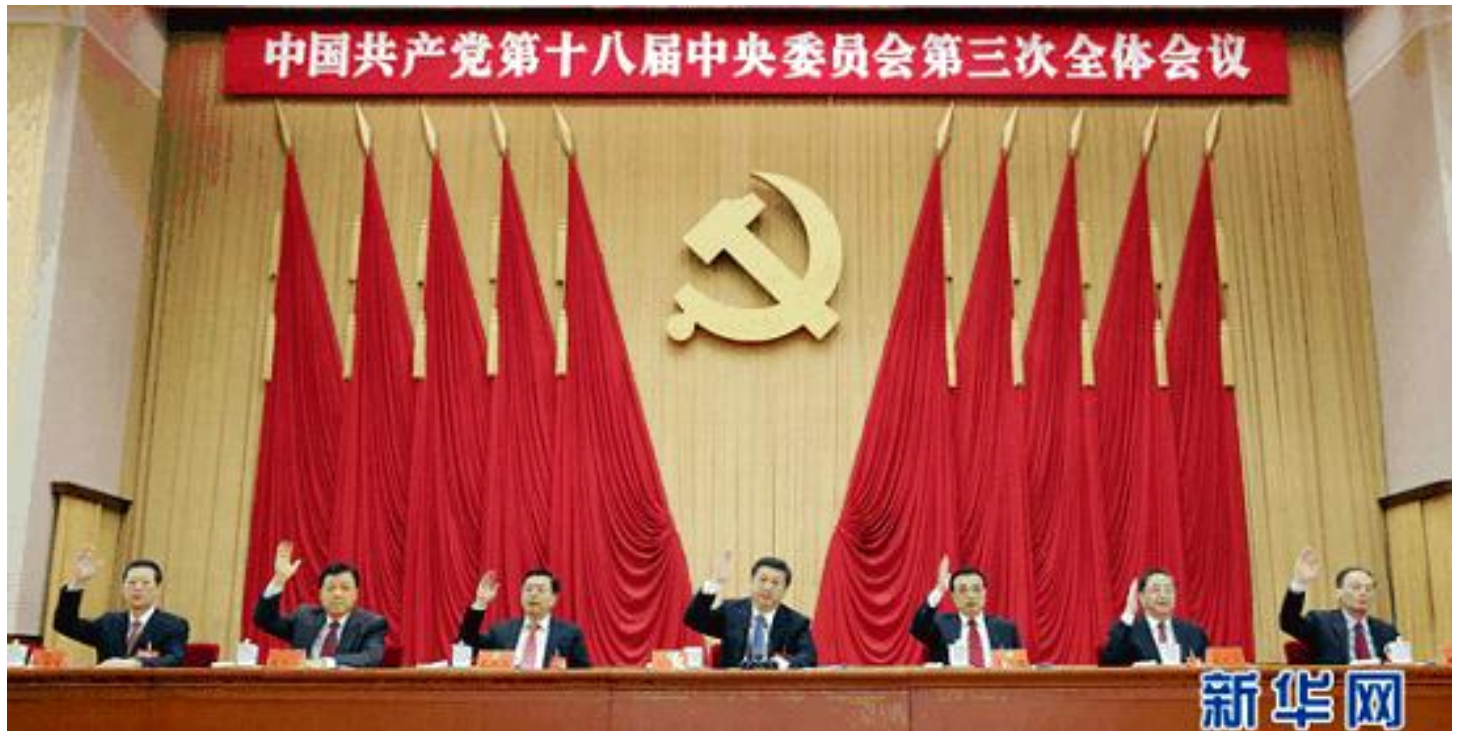
Matthew Mui is fluent in Putonghua, English and Cantonese. He is a fellow member of the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants.

Agenda

- 1. Important role of Fiscal & Taxation Reforms**
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- 2. Core focus of Fiscal & Taxation Reforms**
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- 3. Messages of 2014 Budget approved by the 12th National People's Congress**
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- 4. Correlation between Fiscal & Taxation Reforms and companies**
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Important role of Fiscal & Taxation Reforms

1



CPC's decision-making hierarchy

The CPC's decision-making process



The Decision on Several Major Issues Concerning the Comprehensive Deepening of Reform – was adopted at the Third Plenary Session of Central Committee of the 18th CPC National Congress held in Beijing from 9 to 12 November 2013.

3rd Plenum

2013: 18th NCCPC

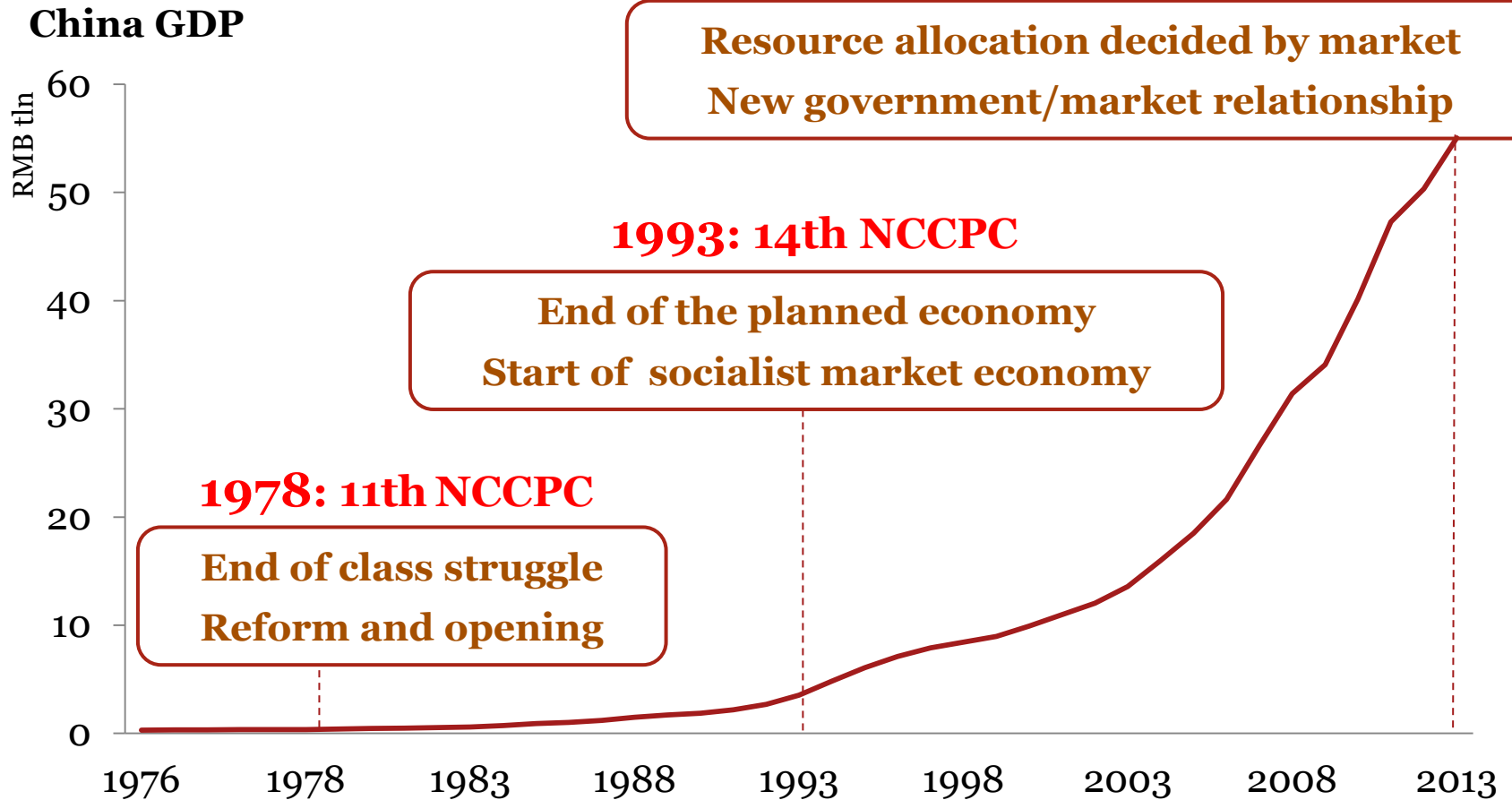
**Resource allocation decided by market
New government/market relationship**

1993: 14th NCCPC

**End of the planned economy
Start of socialist market economy**

1978: 11th NCCPC

**End of class struggle
Reform and opening**



NCCPC: National Congress of the Communist Party of China

The Two ‘One-Hundred-Year’ Goals of CPC

The two “One-Hundred-Year” goals are the goals reiterated in the 18th NCCPC report and the foundation for building the Chinese Dream.

- First One-Hundred-Year goal (1921-2021)
 - The 100th anniversary of the founding of the CPC
 - Building a all-round moderately well-off society (e.g. middle class society) by 2021
- Second One-Hundred-Year goal (1949-2049)
 - The 100th anniversary of the founding of the People’s Republic of China
 - Realization of the Glorious Renaissance of the Chinese People by 2049

The fiscal and taxation system reform plays an important role in the Decision of the Third Plenum

“The general objective of the comprehensive deepening of reform is to improve and develop the socialist system with Chinese characteristics, and promote the modernisation of national governance system and capacity.”

“The fiscal and taxation system reform is one of the key focuses of the reform”

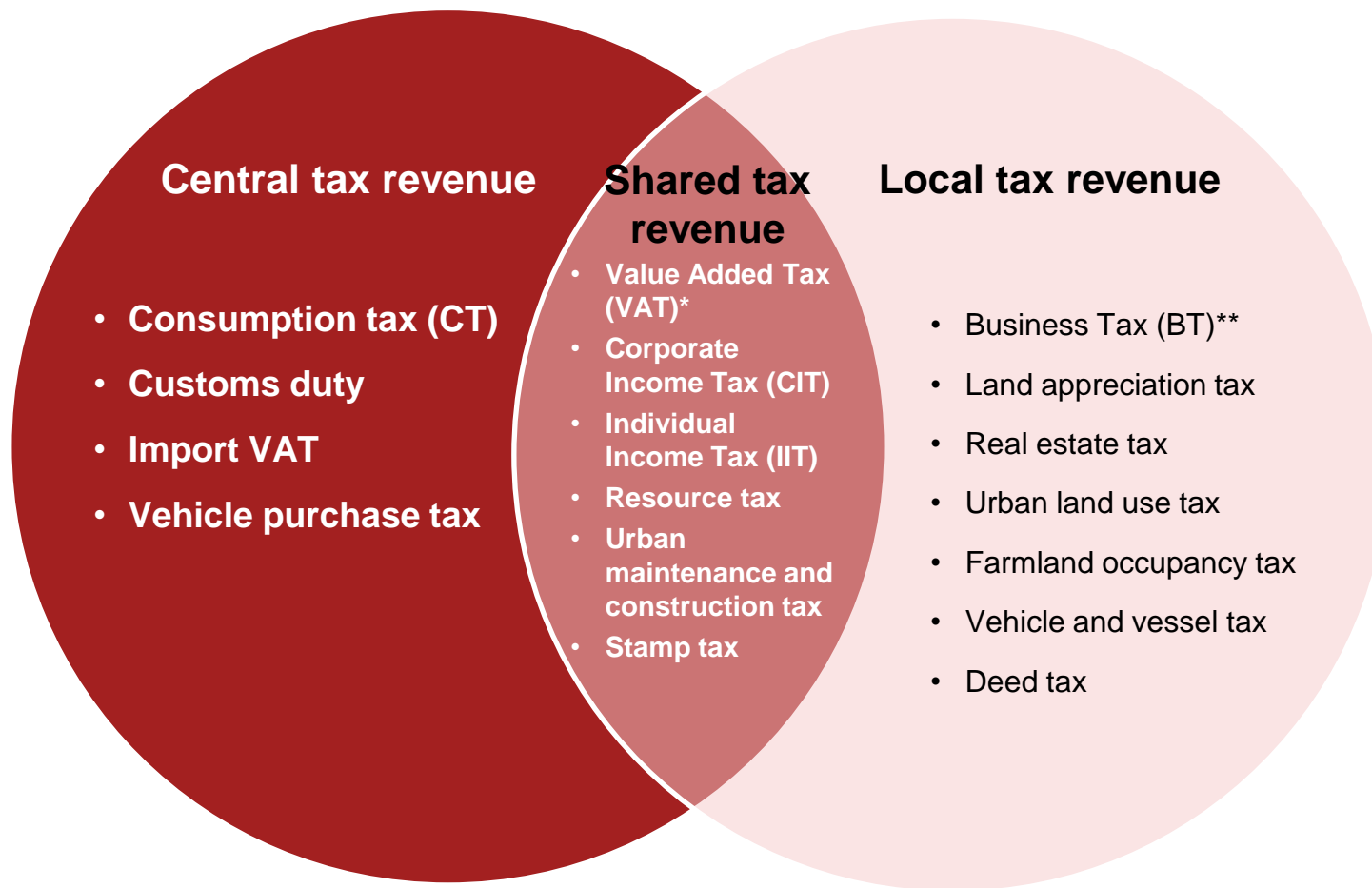
Extracted from the Announcement and the Decision of the third Plenum of the 18th Central Committee of the CPC, and the explanation of the Decision by the CPC Chairman, Mr. Xi Jinping

Core Focus of Fiscal & Taxation Reform

2



Streamline the local tax system



* During the B2V transformation pilot program, the VAT revenue, which was originally BT revenue, remains to be local tax revenue

** BT paid by headquarters of banks and insurance companies is central tax revenue

Optimise the collection and administration system of state and local taxes

- “Central taxes” to be collected by State Tax Bureaus
- “Local taxes” to be collected by Local Tax Bureaus
- VAT and income taxes to be collected by State Tax Bureaus and consumption tax to be collected by Local Tax Bureaus
- Focus on risk management and key tax sources
- Improve IT system to facilitate information sharing

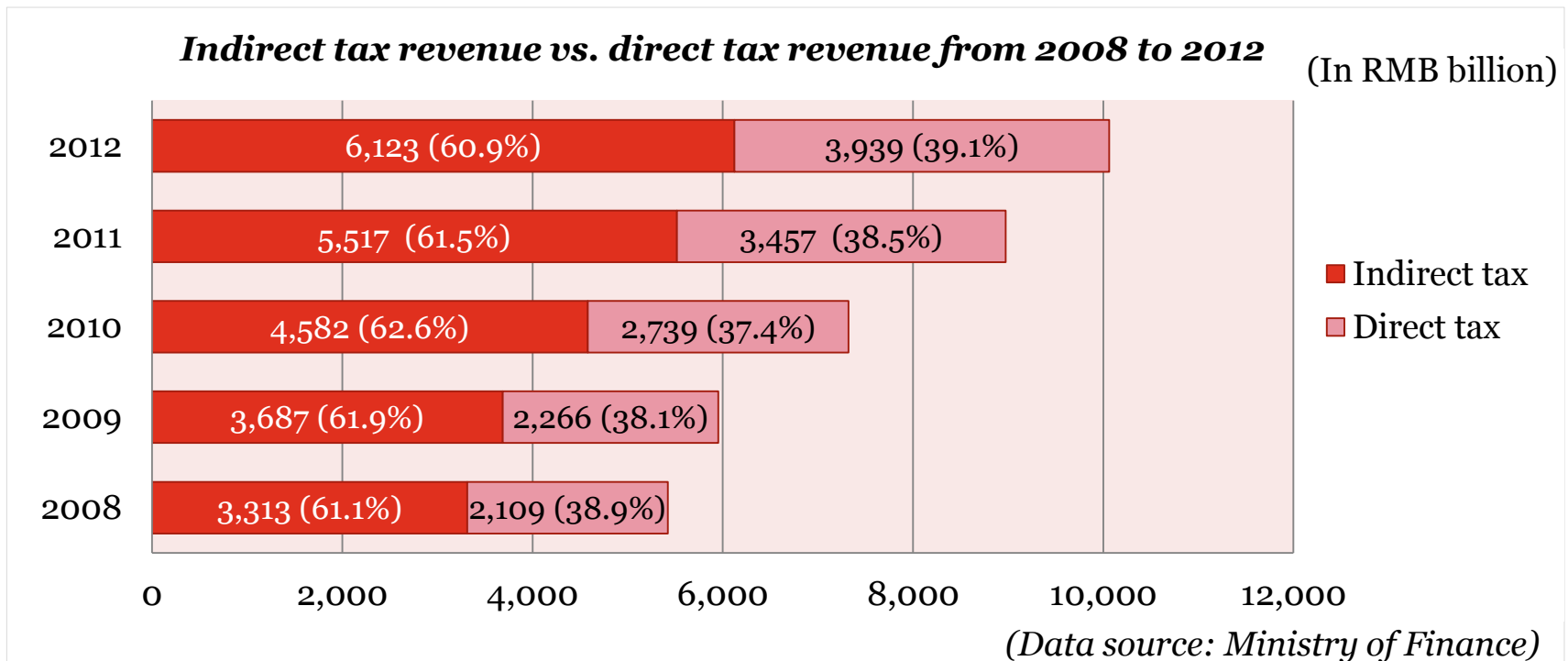
“Stabilise tax revenue” is one of the highlights of the 2013 National Tax Conference

Do the local-level tax authorities have target for tax revenue?

Gradually increase the proportion of direct tax

Optimise structure of tax system

- Reduce the proportion of indirect tax revenue
- Further increase the proportion of taxes on income and taxes on real estate during holding period



Promote VAT reform and simplify tax rates

Establishing a standardised and modern VAT system

- Complete the BT to VAT transformation (B2V) during the 12th Five-Year Plan
- Gradually allow input VAT on immovable properties to be creditable
- Improve export tax refund policies
- Simplify tax rates and aim at a unified rate

Adjust the scope, stage of levy and rates of consumption tax

Further strengthen the role of consumption tax in income adjustment

- Expand consumption tax to cover highly energy-consuming and high pollution products as well as more high-end consumer goods
- Tax to be levied at the stage of retail/wholesale instead of at the stage of production (import)
- First trial on a few items that are easy to administer

Speed up resource tax reform and transform environmental protection fees to environmental protection tax

Speed up resource tax reform and introduce environmental protection tax

- Ad valorem resource tax to be levied on coal
- Review and cancel relevant fee charges
- Appropriate increase of tax on resources by adopting volume based as calculation basis
- Initial expansion of scope of Resource Tax
- Introduce environmental protection tax and cancel pollution discharge fees as early as possible

Regular income and other income to be grouped into separate categories

Focuses of IIT reform

Taxable income and filing mechanism

- Regular income to be grouped together and the tax to be levied on an annual basis
- Tax on capital income and other temporary and irregular income to be levied separately every time the income is received

Deduction

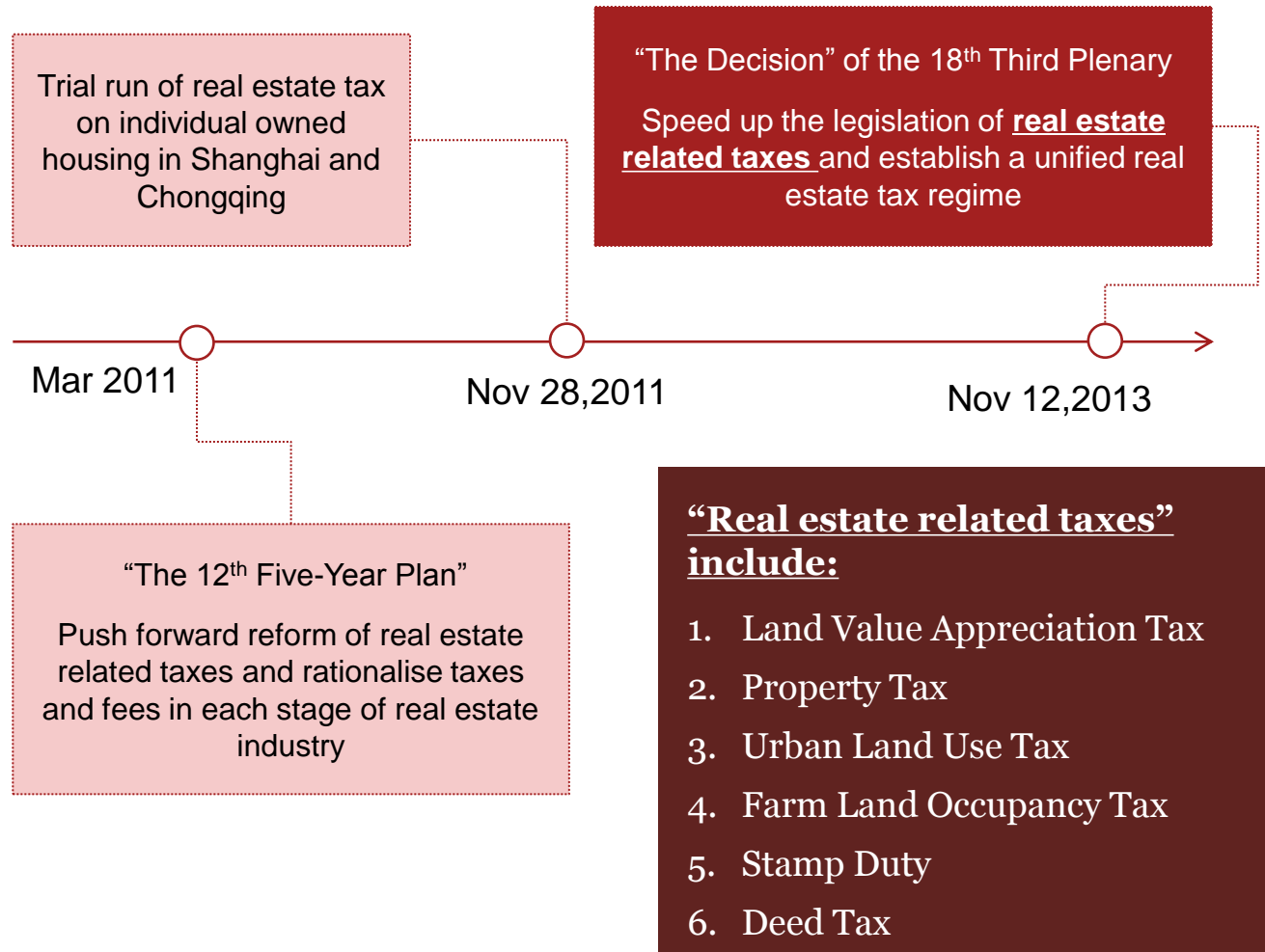
- Personal expenditure deduction

Tax rate

- Adjust tax rates for different income types. For example, tax rates derived from employment and provision of services shall be generally lower than the tax rates of other incomes
- Tax rate of active income (i.e. investment) shall be generally lower than that of passive income (i.e. interest, dividends and other irregular income, etc.)

Speed up the legislation for real estate related taxes and push forward reforms at proper time

Raise the proportion of real estate related taxes during holding period



Standardise the administration on local and regional tax incentives

Principles

- **A unified tax system**
- **Fair tax burden**
- **Competition on the same level playing field**

- Clean-up the existing local and regional tax incentives:
 - No extension of lapsed tax incentives
 - Clarify transitional treatment for existing tax incentives
 - Extend certain tax incentives to nationwide
- Regional development plans should be separated from tax incentives. Generally tax incentives shall no longer be granted to any individual region
- Tax incentives shall be strictly based on existing tax laws and regulations. Unauthorised tax deduction and exemption is prohibited

***MOF's
inspection plan
in 2014***

Messages of 2014 Budget reviewed by the 12th National People's Congress

3



Taxation reforms

Top 7 taxation reforms in 2014

- ① B2V, pilot roll-out to telecom sector
- ② IIT incentives on enterprise annuity
- ③ Resource Tax reform on coal products
- ④ Expand tax incentives for Small and Thin-profit Enterprises
- ⑤ Adjust the scope, stage of levy and rates of Consumption Tax
- ⑥ Speed up the legislation for real estate related taxes
- ⑦ Speed up the legislation for Environmental Protection Tax

Tax policies for industrial structure adjustments

7 Tax policies for industrial structure adjustments in 2014

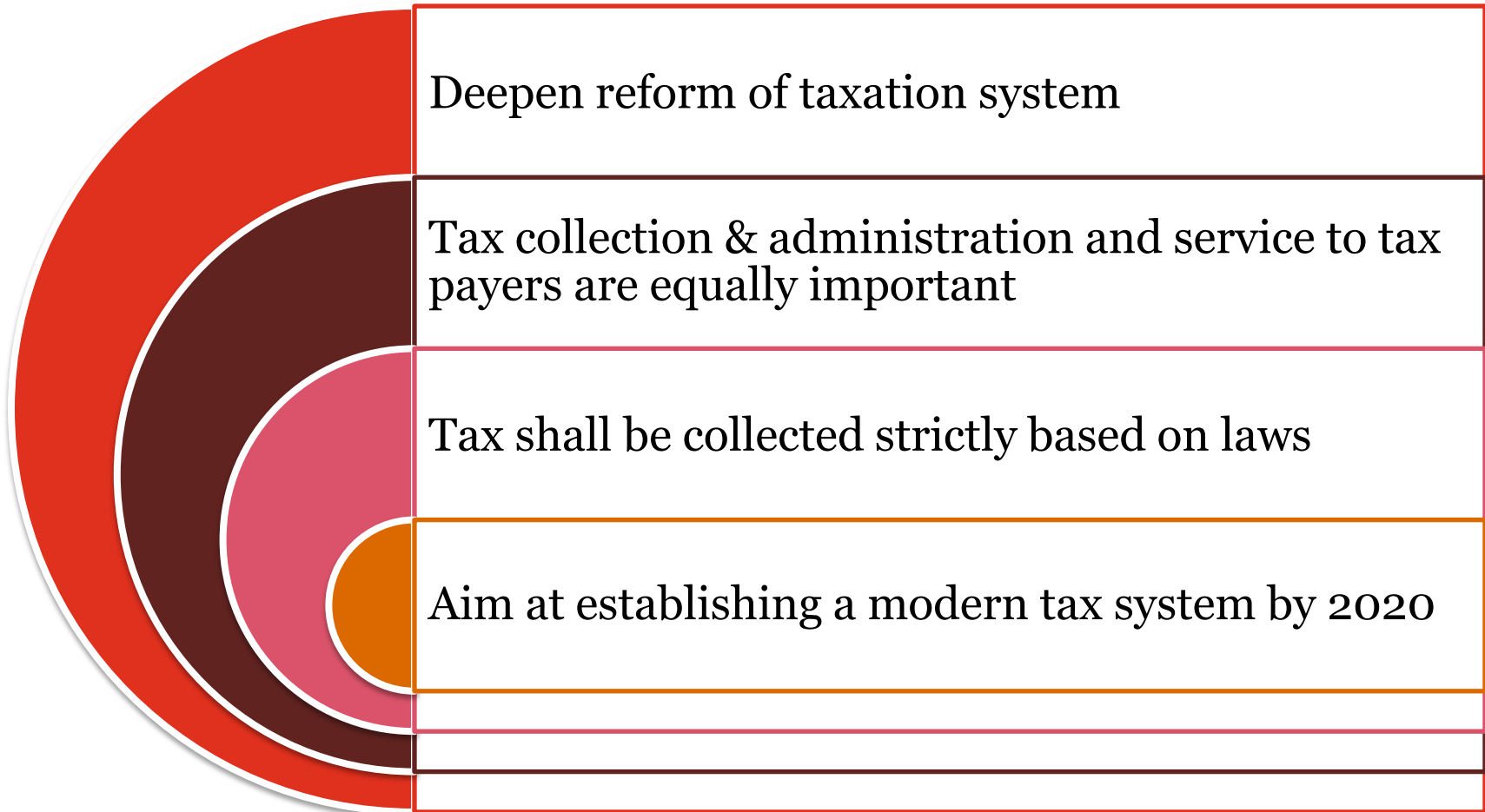
- ① Expand tax incentives for Small and Thin-profit Enterprises
- ② Optimize tax policies to promote service sectors
- ③ Reduce the rate of Customs Duty for importing certain goods
- ④ Impose export Customs Duty on certain high-energy consuming products
- ⑤ Improve tax policies to encourage innovation
- ⑥ Study and optimize tax policies in relation to accelerated depreciation
- ⑦ Enhance the policy implementation of R&D expense super deduction

Correlation between Fiscal & Taxation Reform and companies

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Correlation between fiscal and taxation reform and companies



Thanks!

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