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News and comments on doing business in the Far East

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Investments regulations and economic trends

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Asia Report is a magazine focusing on doing busness in the Far East region, on regulations of cross-border investments and economic trends.

Asia is home of the fastest-growing and largest economies: China is the first manufacturing hub, the top economy in trade and the largest market by number of consumers. South East Asian countries combined represent the fifth largest economy worldwide and the fifteen Asia-Pacific members of the Regional Comprehensive Economic Agreement created the largest free trade area in the world.

## China’s 2022 Tariff Policy

The Customs Tariff Commission ("CTC") of the State Council has recently issued the Circular on the 2022 Tariff Adjustment Plan (the "Circular"). According to the Circular, starting from January 1, 2022, China will implement provisional tariff rates lower than the most-favored-nation tariff rates on 954 commodities.
The adjustments proposed in the Circular are mainly based on the following considerations:
implementing zero tariffs on radium chloride injection, the new anti-cancer drug, to reduce the economic burden of the patients;
reducing import tariffs on some consumer goods, including some high-quality aquatic products such as salmon, to meet the people's needs for a better life, and create a sound atmosphere for the Beijing Winter Olympics;
implementing zero tariffs on oil paintings and other artworks that have been produced for more than 100 years, to meet the needs of cultural consumption;
reducing import tariffs on gasoline particular filters that can improve vehicle fuel efficiency and reduce exhaust emissions to raise environmental quality;
reducing import tariffs on key components such as high-purity graphite accessories to help optimize and upgrade the manufacturing industry;
reducing the import tariffs on resource products that are in short supply domestically, such as pyrite and pure potassium chloride.

## Investing in Tianjin

Tianjin is a municipality and a coastal metropolis located in Northern China on the shore of Bohai Sea. Tianjin is an integral part of the Bohai Gulf Economic Region and recognised as North China’s main maritime hub. Well-known for its airport as one of the major centers for cargo transport, Tianjin is acknowledged to be one of the main industrial centers of China, for the mechanical, textile and oil production industries along with Tianjin’s Pilot Free Trade Zone. With a population of 13.8 million inhabitants covering a total surface area of 11,760 km2.
Local authority data shows that Tianjin Province recorded total exports of USD 45 billion and total imports of USD 62 billion, with 15,089 established foreign investment companies. In addition to an average urban salary of USD 15,223.
In terms of GDP among the provinces in China, Tianjin ranked 23rd, reaching USD 204 billion in 2020 and USD 203 billion in 2019 with a GDP per capita of USD 13,067. Along with GDP growth of +4.8% in 2019 and +1.5% in 2020.

**Main Economic Centers (GDP) in Tianjin**

- Binhai (USD 154 billion)
- Xiqing (USD 17 billion)
- Wuqing (USD 17 billion)
- Beichen (USD 16 billion)
- Dongli (USD 14 billion)

**Main Sectors in Tianjin**

- Automotive
- Renewable
- Logistics
- Industrial machinery

**Main Industrial Areas in Tianjin**

- Tianjin Pilot Free Trade Zone
- Tianjin Economic and Technological Development Area

- Binhai High-tech Industrial Development Zone
- Dongli Economic and Technological Development Zone
- Xiqing Economic and Technological Development Zone
- Beichen Economic and Technological Development Zone
- Wuqing Economic and Technological Development Zone
- Tianjin Port Bonded Area
- Tianjin Export Processing Zone
- Tianjin Dongjiang Port Bonded Area
- Tianjin Binhai New Area Comprehensive Bonded Area

**(Tianjin) Pilot Free Trade Zone**

Established in 2015 known as the Logistics hub for the development of Beijing-Tianjin-Hebei area, with the purpose to lead the economic transformation of China by having a key role in the economic development and coordination of Beijing-Tianjin-Hebei region.
The target industries are international logistics, corporate headquarters, telecommunication, biology, advanced manufacturing, civil aviation, new energy and new materials, financial services, information technology, cross-border e-commerce. Besides, the functional areas include the Binhai CBD area (46.8 sq. km), Dongjiang area (30.0 sq. km), and Tianjin Airport area (41.3 sq. km).

## Import Duty Policies for Key Equipment and Products

In 2020 the Ministry of Finance (MOF), jointly with the Ministry of Industry and Information Technology (MIIT), the General Administration of Customs of China (GACC), the State Administration of Taxation (SAT) and the National Energy Administration (NEA) issued the Circular [2020] No. 2 on the Administrative Measures for Import Duty Policies on Major Technical Equipment.
The Circular aimed to improve the competitiveness and the innovation capabilities of Chinese companies and the development of equipment manufacturing through preferential import duty policies applicable to imported products and goods included in the Catalog of Key Technical Equipment and Products Supported by the State for Development and the Catalog of Imported Key Components, Parts, and Raw Materials of Major Technical Equipment and Products. In addition, for major technical equipment and products that could be produced in China, the MIIT, jointly with MOF, GACC, SAT, and NEA, formulated the Catalog of Imported Major Technical Equipment and Products Not Subject to Duty Exemption.
The preferential import duty policies consist of the exemption from customs duties and/or the waive of the import VAT. The relevant authorities shall recognize companies eligible for the exemption, and their qualification shall be reviewed periodically.
In July 2020, the five authorities issued the Circular [2020] No. 118 on the Implementing Rules for the Administrative Measures for the Import Duty Policy on Key Technical Equipment, which entered into force in August 2020. Circular No. 118 lists the requirements to be met by a company in order to be qualified to enjoy the preferential import duty policies when importing key technical equipment, including:

1. a strong manufacturing and R&D capability.
2. a good credit score.
3. the ownership of core technology and intellectual property and
4. the key technical equipment and products are among the items in the Catalog of Key Technical Equipment and Products Supported by the State for Development.

The Circular also applies to nuclear power project owners undertaking key technical equipment-backed projects.

In light of the changes in domestic and foreign situations, the MIIT, jointly with the MOF, GACC, SAT, and NEA, issued in December 2021 the Circular [2021] No. 198 on Adjusting the Relevant Catalogues of Import Tax Policies of Major Technical Equipment. The revised three Catalogues (2021 Edition) will be applicable from January 1, 2022.
The technical equipment and products supported by the State include, among others, large scale clean and efficient power generation equipment, high-voltage transmission and transformation equipment, large-scale petroleum, petrochemical, coal, metallurgical, mining equipment, high-speed CNC equipment.

## Investing in Inner Mongolia

Located in the utmost North of China, Inner Mongolia is an autonomous region with a very high endowment of natural resources, including minerals, vast deposits of rare earths, and coal. These natural characteristics have led to the development of a strong steel, mining and electricity industries. Further, cattle farming and related industries are highly important. The Autonomous Region has 24 million inhabitants and extends over an area of 1,183,000 km2; its capital is Hohhot.
Local authority data shows that Inner Mongolia recorded total exports of USD 5 billion and total imports of USD 9 billion, with 3,511 established foreign investment companies. In addition to an average urban salary of USD 11,158.
In terms of GDP, Inner Mongolia ranks 22nd in China, reaching USD 251 billion in 2020 and USD 247 billion in 2019 with a GDP per capita of USD 9,906. Along with GDP growth of +5.2% in 2019 and +0.2% in 2020.

**Main Economic Centers (GDP) in Inner Mongolia**

- Ordos (USD 55 billion)
- Baotou (USD 43 billion)
- Hohhot (USD 42 billion)
- Chifeng (USD 23 billion)
- Tongliao (USD 19 billion)

**Main Sectors in Inner Mongolia**

- Agricultural products
- Raw materials
- Electricity
- Steel industry

**Main Industrial Areas in Inner Mongolia**

- Hohhot Economic and Technological Development Zone
- Hulunbuir Economic and Technological Development Zone
- Bayannaoer Economic and Technological Development Zone
- Hohhot Jinshan High-tech Industrial Development Zone
- Baotou Rare Earth High-tech Industrial Development Zone
- Ordos High-tech Industrial Development Zone
- Hohhot Export Processing Zone
- Ordos Comprehensive Bonded Zone
- Manzhouli Comprehensive Bonded Zone
- Manzhouli Border Economic Cooperation Zone

## China’s Trade and Investment Agreements

The policy of economic openness that China is implementing to foster its soft power globally includes two agreements that China wants to conclude, other than the RCEP, the Comprehensive and Progressive Trans-Pacific Partnership Agreement (CPTPP), and the Comprehensive Agreement on Investment (CAI) with the EU.
The CPTPP is a free trade treaty between several members of the Asia-Pacific macro-region, and some countries in the Americas. Initially proposed by Obama and later shelved by Trump, the CPTPP is a trade agreement that Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore, and Vietnam are currently members of. In September 2021, China submitted a formal application to join the CPTPP in order to succeed the United States as a major trading partner. China’s entry will be discussed in 2022 during upcoming CPTPP committee meetings.
On the other hand, the CAI is a treaty to encourage and facilitate investment and access to each other’s markets that China and the EU have been negotiating since 2013. The treaty was initialed in 2020, however due to recent friction, its ratification has stalled.
The agreements that China has signed in recent years, in addition to investments and other initiatives such as the supply of medical equipment, masks and vaccines to countries most in need, show how China has understood the need to intensify international cooperation and multilateralism in order to improve relations with other countries and address the difficulties generated by the pandemic crisis. Increasing influence on other countries also serves Beijing to position itself as a global power and equal partner with the United States.
Among the 19 agreements on trade that China has signed, 12 concern countries and regions in the Asia-Pacific region and all of its multilateral free trade agreements are related to this area of the world. The economic agreements under negotiation with countries in the East and the Pacific are with 13 countries (Israel, Palestine, South Korea, Sri Lanka, New Zealand, Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, United Arab Emirates and Japan), the treaties under consideration are 5 (Bangladesh, Mongolia, Nepal, Fiji, Papua New Guinea). Of the total 61 UN member countries in the Asia and Oceania region, China has tax agreements with 38 countries that, in addition to trade, promote investment between Beijing and the rest of the region.
Asia-Pacific is the number one continent in the world, by aggregate GDP per population and territory; for Beijing, being a leader in this mega region means playing the biggest role in global economic relations.

## Investing in Shanxi

Located in Northern China, the province of Shanxi is acknowledged as one of the most important sources of raw materials and natural resources in China. Besides, Shanxi province’s economy is based on heavy industry and coal exploitation. Taiyuan is the capital and the largest city of the province. The province of Shanxi covers a total surface area of 156,000 km2 with a population of 34.5 million inhabitants.
Local authority data shows that Shanxi province recorded total exports of USD 13 billion and total imports of USD 9 billion, with 3,381 established foreign investment companies. In addition to an average urban salary of USD 9,962.
In terms of GDP among the provinces in China, Shanxi ranked 21st, reaching USD 256 billion in 2020 and USD 245 billion in 2019 with a GDP per capita of USD 6,859. Along with GDP growth of +6.2% in 2019 and +3.6% in 2020.

**Main Economic Centers (GDP) in Shanxi**

- Taiyuan (USD 60 billion)
- Changzhi (USD 25 billion)
- Yuncheng (USD 24 billion)
- Luliang (USD 22 billion)
- Jinzhong (USD 22 billion)

**Main Sectors in Shanxi**

- New materials
- Industrial machinery
- Automotive
- Raw materials

**Main Industrial Areas in Shanxi**

- Taiyuan Economic and Technological Development Zone
- Datong Economic and Technological Development Zone
- Jincheng Economic and Technological Development Zone
- Jinzhong Economic and Technological Development Zone
- Taiyuan High-tech Industrial Development Zone
- Changzhi High-tech Industrial Development Zone
- Taiyuan Wusu Comprehensive Bonded Zone

## RCEP to boost Asia in 2022

Asia will be confirmed in 2022 as one of the most dynamic and solid regions from the economic point of view, increasing the importance of the region at global level. In the last decade, thanks to Beijing's role in trade and multilateral bodies, the center of gravity of the world has increasingly shifted towards the East. This has been made possible by various projects that have intensified relations between countries in the area, such as the Belt and Road project promoted by China, and the negotiations that led to the signing of the largest free trade agreement in the world, the Regional Comprehensive Economic Partnership (RCEP), which will come into force on January 1, 2022.

The RCEP is an economic and trade agreement between the major economies of the Asia Pacific region, and includes the ten members of ASEAN, China, Japan, South Korea, Australia, and New Zealand. The agreement was initialed in 2019 after nine years of intense negotiation and bargaining, and will come into effect on January 1, 2022, for members who ratified the agreement during 2020, including China. The main benefit that the RCEP will provide to its members will be greater and freer access to the markets of major Asia-Pacific countries, with the goal of eliminating barriers to entry and more than 95 percent of the tariffs that currently apply.

For China, the RCEP certainly represents an opportunity to further strengthen relations, also from a diplomatic point of view, with its neighbors. Notwithstanding the promotion of the concept of dual circulation and the stimulation of domestic demand, the Chinese government is well aware of the importance of trade with other countries in regional relations.

According to data released by Chinese customs for the first ten months of 2021, the 14 member partners of the free trade agreement represent more than 31% of the 4,892 billion dollars of trade recorded by China. It should also be noted that, unlike the United States and the European Union, RCEP members are, at an aggregate level, net exporters to China: the trade deficit that China recorded with RCEP partners in the first ten months of 2021 is, in fact, over 112 billion dollars (compared to 321 and 161 billion dollars of surplus against the United States and the European Union respectively).

## Asian Economy in 2022

According to the Chinese lunar calendar, 2022 will be the year of the Tiger. Traditionally, the zodiac sign symbolizes strength and ambition, characteristics that well describe the direction and strategies adopted by China in recent years in the international arena.

The year 2022 will be the third "pandemic" year and, according to the estimates of many analysts, it will be the year in which most of the world's economies will attempt to return to pre-covid levels, after the rebound of 2021 following the collapse of 2020.

The International Monetary Fund's most recent estimates released in October 2021 predicted global growth of 5.9% in 2021 and 4.9% in 2022.

The recovery will be driven by Asia, with an aggregate growth of 6.3%. As for the People's Republic of China and India, growth is expected to be 5.6% and 8.5% respectively in 2022. It should be noted, however, that while China maintained positive growth even during 2020, India recorded a decline of over -7.3% of its GDP during the same year. Among advanced economies on the Asian continent, Japan will see GDP increase by about 3.2% in 2022 (higher than the 2.4% projected for 2021), in line with South Korea's expected 3.3% growth. The ten members of the ASEAN bloc are expected to grow by 5.8%, well above the 2.9% expected in 2021. Leading the recovery will be Vietnam (+6.6%), the Philippines (+6.3%), and Malaysia (+6%). Thailand, on the other hand, is expected to show more moderate growth, with +4.5% expected in 2022 after the difficulties of 2021, when the country recorded a rebound of only +1%.

## China Tax Deadlines 2022

The General Office of the State Administration of Taxation issued in December 2021 Circular No. 201 [2021] on "Clarifying the Tax Filing Deadline for 2022".
According to the current tax laws and regulations, Chinese companies must submit a tax filing for several categories of taxes and surcharges monthly (i.e., VAT, IIT, additional surcharges, and others).
Generally, the deadline is the 15th day after the reporting month's end. However, the deadline can be postponed according to the calendar of the public holidays.

The tax deadlines in 2022 are as follows:

- January 19, 2022 (postponed due to New Year's holiday)
- February 23, 2022 (postponed due to Spring Festival)
- March 15, 2022
- April 20, 2022 (postponed due to Qingming Festival)
- May 19, 2022 (postponed due to Labor Day)
- June 20, 2022 (postponed due to Dragon Boat Festival)
- July 15, 2022
- August 15, 2022
- September 20, 2022 (postponed due to Mid-Autumn Festival)
- October 25, 2022 (postponed due to National Day Holiday
- November 15, 2022
- December 15, 2022

The deadline for filing the annual company income tax declaration of 2021 is May 31, 2022, while individuals can perform the annual settlement of the individual income tax within June 30, 2022.
It is strongly suggested to submit tax filing on time to avoid penalties and negative impact on the credit score.

## Contributions Adjustments in China

Several provinces and municipalities recently released updates about social security requirements and details about average salaries in 2021, upon which the minimum and maximum contributions to social insurance and housing funds for employees are calculated. Contribution base figures for social security are usually capped at 3 times the average salary in the jurisdiction where the employee pays social security. Therefore, labor costs for employers are directly proportional to average salaries.

**Jiangsu**

The average monthly salary of employees in Jiangsu in 2020 was RMB 8,635.08. Accordingly, on June 30, 2021, the city’s social bureau released the 2021 social welfare base figures. The maximum social contribution base was adjusted to RMB 19,335. The minimum social contribution base was adjusted to RMB 3,368.

According to Su renshe [2021] 107 which was released on November 16, from July 1 to December 31, 2021, the upper limit of the social contribution base for enterprises shall be RMB 20,586, and the lower limit of the base shall be RMB 3,800.
From January 1, 2021 to December 31, 2021, the upper limit of the social contribution base for government institutions is RMB 20,586, and the lower limit of the base is RMB 3,800.
And on November 26, 2021, the Jiangsu social contribution bureau released Su renshe [2021] 113, according to Su renshe [2021] 113, from January 1, 2022 to December 31, 2022, the upper limit of the social contribution base will be RMB 21,821, the lower limit of the base will be RMB 4,250.

**Guangdong**

The average monthly salary of employees in Guangzhou last year was RMB 7,647. The upper limit of the social contribution base from July 1, 2021 to June 30, 2022 is RMB 22,941. The lower limit of the social contribution base from July 1, 2021 to June 30, 2022 is RMB 4,588 (Guangzhou), RMB 3,958 (Zhuhai, Foshan, Huizhou, Dongguan, Zhongshan, Jiangmen), RMB 3,673 (Shantou, Zhaoqing), RMB 3,800 (Shaoguan, Heyuan, Meizhou, Shanwei, Yangjiang, Zhanjiang, Maoming, Qingyuan, Chaozhou, Jieyang, Yunfu).

**Beijing**

On August 4, 2021, Beijing Social Insurance Fund Management Center and Beijing Medical Insurance Affairs Management Center jointly issued the notice on the upper and lower limits of the base of various social insurance contributions in 2021, which defined the matters related to the adjustment of the upper and lower limits of the base of various social insurance contributions in 2021.
Starting from August 2021, the upper and lower limits of the basic pension, unemployment insurance, work-related injury insurance, and basic medical insurance (including maternity) for enterprise employees in Beijing are unified, of which the upper limit is adjusted to 28,221 yuan and the lower limit is adjusted to 5,360 yuan.

**Shanghai**

In July 2021, Shanghai Municipal Human Resources and Social Security Bureau updated upper and lower limits of the base of various social insurance contributions in 2021.
Starting from July 1, 2021, to June 30, 2022, the upper limits of the basic pension, unemployment insurance, work-related injury insurance, and basic medical insurance (including maternity) for enterprise employees in Shanghai is adjusted to 31,014 yuan, and the lower limit is adjusted to 5,975 yuan.

## China’s 20 Years in the WTO

On December 11, 2001, China officially joined the WTO and became the 143rd member. Since then, China has increased its role in the global economy.
After joining the WTO, China adopted a system of laws and regulations in compliance with the WTO rules. At the same time, the legal system for trade promotion and the legal system for the protection of intellectual property rights have been gradually improved to promote the legalization of foreign economic and trade.
In terms of reducing tariffs and reducing non-tariff barriers, as of January 2005, most of China's tariff reduction commitments had been implemented.
In order to further open up the market, since 2015, China has taken the initiative to lower import tariffs on consumer goods many times. In May 2018, the import tariffs on consumer goods were significantly reduced, and they were implemented on July 1 of the same year.

In terms of expanding service market opening, it provides overseas service providers with extensive market access opportunities including finance, telecommunications, logistics, tourism, and education. Among the 160 sub-sectors of the WTO's service trade classification, China has opened nearly 120.

In the past 20 years, China has grown significantly, and its economy surpassed Japan's for the first time, as 2nd in the world in 2010.
China's total tariff level fell to 7.4%, below its WTO accession commitment of 9.8%, and its contribution to world economic growth exceeded 30%. FDI rose from the world's 26th to the 1st place, with 98% of the World’s Top 500 companies having invested in China.
China's global share of GDP developing from 4% in 2001 to 17% in 2020.
China's total imports and exports of goods rising from 509 billion USD in 2001 to 4,646 billion USD in 2020, with trade in goods rising from 6th to 1st place in the world, with an average annual growth rate of 12%.
Today, China is again facing the challenge of further deepening reform and the urgent need to further expand trade and investments with other countries, that is why China promoted multi-lateral free trade agreements, tax treaties and agreements on investments, including the ratification of the Regional Comprehensive Economic Partnership (RCEP) that will enter into force in 2022 and the application to join the Comprehensive and Progressive Trans-Pacific Partnership (CPTPP).

## Investing in Guizhou

Located in Southwest China, the province of Guizhou is acknowledged to be rich in mineral deposits and natural resources, and it is also a major producer of tea and alcoholic beverages, especially liqueurs and spirits. Guizhou province is a well-known exporter of tobacco and herbs for medicinal use. Guiyang is the capital and the largest city of Guizhou province. The province of Guizhou covers a total surface area of 176,167 km2 standing a population of 38.5 million inhabitants.
Local authority data shows that Guizhou province recorded total exports of USD 4.7 billion and total imports of USD 2 billion, with 1,891 established foreign investment companies. In addition to an average urban salary of USD 11,836.
In terms of GDP among the provinces in China, Guizhou ranked 20th, reaching USD 258 billion in 2020 and USD 241 billion in 2019 with a GDP per capita of USD 7,131. Along with GDP growth of +8.3% in 2019 and +4.5% in 2020.

**Main Economic Centers (GDP) in Guizhou**

- Guiyang (USD 63 billion)
- Zunyi (USD 54 billion)
- Bijie (USD 30 billion)
- Qiannan (USD 23 billion)
- Qianxinan (USD 20 billion)

**Main Sectors in Guizhou**

- Raw materials
- Tobacco
- Foodstuffs
- Traditional medicine

**Main Industrial Areas in Guizhou**

- Guiyang Economic and Technological Development Zone
- Zunyi Economic and Technological Development Zone
- Guiyang High-tech Industrial Development Zone
- Anshun Hugh-tech Industrial Development Zon
- Guiyang Comprehensive Bonded Zone
- Zunyi Comprehensive Bonded Zone
- Gui’an Comprehensive Bonded Zone

## Annual Audit in China

With the approach of the end of the year, shareholders and managers of Chinese companies shall start to plan the audit of the financial statements of the tax year. As required by Chinese regulations, legal entities established in China, including representative offices of foreign companies, shall complete their statutory annual audit before the deadline set for the annual settlement of the company income tax, which is May 31 of the following year.
A qualified CPA firm shall perform the statutory annual audit in accordance with the Chinese Standards on Auditing; the auditors shall assess the company's financial statements, verify the compliance with the Chinese accounting principles ("ASBE", Accounting Standards for Business Enterprises) and issue an audit report at the end of the process including their opinion whether the financial statements are prepared in accordance with the ASBE, and if they present fairly and in all material aspects the financial position and the economic performance of the company in the tax year.

Besides the auditor's opinion, the audit report includes:

- the balance sheet;
- the profit and loss statement;
- the cash flow statement;
- the notes to the financial statements, and
- the reconciliation between the accounting and the tax profit.

The statutory annual audit also provides an opportunity to shareholders and managers to review the operations and the performance of the year, identify potential risks and adjustments, and assess the financial status.
The audit process may require several months to be completed, depending on the size of the audited company and the volume of transactions and accounts. Most of the companies generally start in January after the end of the tax year to complete the whole process within April 30.
The annual audit is the first step in the yearly compliance procedure; the audit is followed by the annual settlement of the company income tax (deadline May 31) and by the annual declaration with the relevant authorities, such as the State Administration for Market Regulation, the Ministry of Commerce, and the State Administration of Foreign Exchange to be performed within June 30 of the following year.

## Changzhou Talents Special Incentives

Changzhou – "Notice on Issuing the Implementation Rules of the Series of "Policies Regarding the Promotion of Innovative Development"".
Changzhou is situated in the south part of Jiangsu province, between Nanjing and Wuxi. In 2020, its GDP reached the amount of 7,805.3 billion RMB, which places it in the fifth place in the GDP ranking of Jiangsu province. The individual income tax has changed during the years. Following the tax burden in 2022 for foreign individuals, several cities and prefectures are focusing on special awards and incentives to be grated to foreign talents.
Government of Changzhou issued the notice at 24th Mar. 2021 that qualified high-level talents newly introduced in Changzhou from January 1 2021 are awarded on different level as following,
The part of the total salary of more than CNY 300,000 and less than CNY 660,000 will be rewarded at 100% of the local contribution;
The total wages and salaries of more than CNY 660,000 and less than CNY 960,000 will be rewarded at 75% of the local contribution;
The total wages and salaries above CNY 960,000 will be rewarded at 50% of the contribution to the local government.

## Investing in Guangxi

Guangxi is an autonomous region located in South China. The province of Guangxi is incredibly rich in resources and raw materials and has become a center for the burgeoning Chinese automotive industry and the production of motor

vehicles in general. Nanning is the capital and the largest city of the province. Guangxi has a population of 50.1 inhabitants and a surface area of 237,000 km2.
Local authority data shows that Guangxi Province recorded total exports of USD 39 billion and total imports of USD 31 billion, with 5,333 established foreign investment companies. In addition to an average urban salary of USD 10,670.
In terms of GDP, the province of Guangxi is 19th in China, reaching USD 321 billion in 2020 and USD 305 billion in 2019, with a GDP per capita of USD 6,473 and overall economic growth measuring at 6.0% in 2019 and +3.7% in 2020.

**Main Economic Centers (GDP) in Guangxi**

- Nanning (USD 70 billion)
- Liuzhou (USD 46 billion)
- Guilin (USD 33 billion)
- Yulin (USD 26 billion)
- Qingzhou (USD 21 billion)

**Main Sectors in Guangxi**

- Pharmaceutical
- Industrial Machinery
- Tourism
- Automotive

**Main Industrial Areas in Guangxi**

- Guangxi Pilot Free Trade Zone
- Nanning Economic and Technological Development Zone
- Guangxi-ASEAN Economic and Technological Development Zone
- Qinzhou Port Economic and Technological Development Zone
- China-Malaysia Qinzhou Industrial Park
- Nanning High-tech Industrial Development Zone
- Guilin High-tech Industrial Development Zone
- Nanning Comprehensive Bonded Zone
- Guangxi Qinzhou Free Trade Port Area
- Beihai Silver Beach National Tourist Resort

**(Guangxi) Pilot Free Trade Zone**

Guangxi's Pilot Free Trade Zone was established in 2019 in order to form a getaway to connect the 21° Century Maritime Silk Road and the Silk Road Economic Belt. Thus, it has the purpose of deepening the open cooperation with the ASEAN region, promoting the construction of a new channel for international land and sea trade as well as exploring the development and opening-up of border areas.
The industries targeted by the Free Trade Zone are those of modern finance, smart logistics, digital economy, shipping and logistics, international trade and green chemicals. The functional areas included are those of Nanning (46.8 km2), Qinzhou (58.2 km2) and Chongzuo area (15.0 km2).

## Lianyungang Talents Subsidies

Lianyungang – "Measures for the fund for industrial development management for Lianyungang Area of China (Jiangsu) Pilot Free Trade Zone".

Lianyungang is situated in the north part of Jiangsu province. In 2020, its GDP reached the amount of 327.707 billion RMB. The city has one main industrial area, known as “Lianyungang Economic and Technological Development Zone”. The individual income tax has changed over the years. Following the tax burden in 2022 for foreign individuals, several cities and prefectures are focusing on special awards and incentives to be granted to foreign talents.
Management Committee of Lianyungang Area of China (Jiangsu) Pilot Free Trade Zone issued the announcement on 2nd Apr. 2020 that qualified high-level talents are given a full subsidy based on the individual income tax retained by the local government and foreign talents can choose to be rewarded the tax difference of more than 15% from January 1, 2020.

## Investing in Yunnan

Yunnan is a south-western province known for its numerous waterways that provide hydroelectric power. Besides, Yunnan province’s industrial production is strongly linked to natural resources, tobacco and paper processing, and the steel sector. Kunming is the capital and the largest city of Yunnan province. With a population of 47.2 inhabitants covering a total surface area of 394,000 km2 alongside the rainforest of Xishuangbanna in Yunnan province is one of the largest forests in Asia.
Local authority data shows that Yunnan Province recorded total exports of USD 15 billion and total imports of USD 19 billion, with 4,343 established foreign investment companies. In addition to an average urban salary of USD 11,440.
In terms of GDP among the provinces in China, Yunnan ranked 18th, reaching USD 355 billion in 2020 and USD 334 billion in 2019 with a GDP per capita of USD 7,314. Along with GDP growth of +8.1% in 2019 and +4.0% in 2020.

**Main Economic Centers (GDP) in Yunnan**

- Kunming (USD 98 billion)
- Qujing (USD 43 billion)
- Honghe (USD 35 billion)
- Wuxi (USD 30 billion)
- Dali (USD 22 billion)

**Main Sectors in Yunnan**

- Raw materials
- Steel industry
- Tobacco
- Tourism

**Main Industrial Areas in Yunnan**

- Yunnan Pilot Free Trade Zone
- Kunming Economic and Technological Development Zone
- Qujing Economic and Technological Development Zone
- Songming Yanglin Economic and Technological Development Zone
- Mengzi Economic and Technological Development Zone
- Dali Economic and Technological Development Zone
- Kunming High-tech Industrial Development Zon
- Yuxi High-tech Industrial Development Zone
- Kunming Comprehensive Bonded Zone
- Honghe Comprehensive Bonded Zone
- Kunming Dianchi National Tourism Resort

**(Yunnan) Pilot Free Trade Zone**

Established in 2019 and known as the connection area with South and South-east Asia. Focused on connecting South Asia and Southeast Asia and develop an open frontier for South Asia and Southeast Asia through cooperation with neighboring countries such as Vietnam, Laos, and Myanmar.
The target industries are high-end manufacturing, aviation logistics, digital, and logistics center for South and South-east Asia, cross border commerce, and finance. Besides, the functional areas include the Kunming area (76 sq. km), Honghe area (14.1 sq. km), and Dehong area (29.7 sq. km).

## Rep Office and Tax Treaties

China has signed more than a hundred double tax agreements ("DTAs") with overseas tax jurisdictions, including Italy. Those DTAs are generally based on OECD and UN models, included the Art. 7 Business profits, that allocate the taxation rights of the contracting jurisdictions on business profits based on the concept of the PE.
Based on the interpretation of the DTA and the general guidance provided by Circular of the State Administration of Taxation on "Agreement between the Government of the People's Republic of China and the Government of the Republic of Singapore for the Avoidance of Double Taxation and the Prevention of Tax Evasion with Respect to Taxes on Income and Interpretations on the Clauses of the Protocols thereof" (Guo Shui Fa [2010] no. 75, "Circular 75"), a RO established by an overseas parent company in China is included in the definition of the fixed place of business, and therefore a RO is considered as a PE of the overseas parent company in case it is maintained in China for over 183 days or for a period or periods aggregating more than six months within any 12-month period.
In accordance with the guideline provided by Circular 75, a China RO of an overseas parent company is treated as a PE and the profit attributable to the PE, generally computed on a deemed basis, is taxed in China.

## Investing in Chongqing

Investing in Chongqing. Chongqing is a municipality located in Southwest China and is a key logistical hub for the Belt Road Initiative project. Chongqing covers a total surface area of 82,300 km2 with a population of +32 million inhabitants. Local authority data shows that Chongqing province recorded total exports of USD 61 billion and total imports of USD 34 billion, with 6,300 established foreign investment companies. In addition to an average urban salary of USD 11,928. In terms of GDP among the provinces in China, Chongqing ranked 17th, reaching USD 362 billion in 2020 and USD 339 billion in 2019 with a GDP per capita of USD11,597. Along with GDP growth of +6.3% in 2019 and +3.9% in 2020.

**Main Economic Centers (GDP) in Chongqing**

- Yubei (USD 29 billion)
- Jiulongpo (USD 22 billion)
- Yuzhong (USD 20 billion)
- Jiangbei (USD 19 billion)
- Fuling (USD 18 billion)

**Main Sectors in Chongqing**

- Electronics
- Automotive
- Telecommunications
- Chemical

**Main Industrial Areas in Chongqing**

- Chongqing Pilot Free Trade Zone
- Chongqing High-Tech Industrial Development Zone
- Chongqing Liangjiang New Area
- Changshou Economic and Technological Development Zone
- Chongqing Economic and Technological Development Zone
- Wanzhou Economic and Technological Development Zone
- Bishan High-tech Industrial Development Zone
- Chongqing Xiyong Comprehensive Bonded Zone
- Chongqing Lianglu Cuntan Bonded Port Zone
- Chongqing Jiangjin Comprehensive Bonded Zone

**(Chongqing) Pilot Free Trade Zone**

Established in 2017 with the aim of promoting openness to western regions by supporting the Belt and Road initiative and the Yangtze River Economic Belt.
The target industries are high-end manufacturing, biomedicine, core electronic components, financial service, international logistics, professional services. Besides, the functional areas include the Liangjiang area (66.3 sq. km), Guoyuangang area (30.9 sq. km), and Xiyong area (22.8 sq. km).

## Rep Office Cost-Plus Taxation

A Representative Office ("RO") is among the investment structures that an overseas entity can choose to enter the Chinese market.
Compared to other options such as the wholly foreign owned enterprise ("WFOE") or the joint venture ("JV") with a Chinese partner, a RO envisages a limited business scope: in China, a RO is generally not permitted to engage in any profit-seeking business and cannot issue invoices or collect remittances from clients. For such reason, the expenses incurred by the RO shall be covered by cash remittances from the overseas parent company. The activities of the RO shall be therefore limited to liaison and promotion office for its parent company's products and services.
Despite the limitation in its permitted scope of activities, a RO shall keep a proper accounting and bookkeeping system and is taxed in China as a permanent establishment ("PE") of the overseas entity. In the specific, the RO is subject to China Company Income Tax ("CIT"), China Value-added Tax ("VAT"), and the local additional surcharges ("LAS") that are calculated on the VAT payable.

**1.CIT liability**

Based on the Circular of the State Administration of Taxation on Provisional Measures for the Administration on Taxation Collection of Resident Representative Offices of Foreign Enterprises (Guo Shui Fa [2010] no. 18, "**Circular 18**"), the tax liability of the RO shall be assessed based on the actual amount method (actual basis), by considering the revenue attributable to the RO and the expenses incurred by the entity.
From the practical perspective however, since an ordinary RO is not allowed to generate revenue from its activities, the accounting is limited to recording the expenditures incurred by the RO during the tax year and to file timely the CIT on a quarterly basis, and the VAT and LAS on a monthly / quarterly basis.
The tax liability of the RO will be then assessed based on the deemed amount method as stipulated by Circular 18, according to which the tax incurred by the RO is computed on the incurred expenses. Accordingly, Chinese tax authorities are empowered to compute the taxable income of the RO based on the **cost-plus method**.

The cost-plus method aims to compute the CIT based on the deemed amount of revenue derived from the total expenses incurred by the RO during the period and a deemed profit rate:

**Deemed revenue** = Total expenses / (1 – Deemed profit rate)

**Deemed profit [1]** = Deemed revenue – Total expenses

Or

**Deemed profit [2]** = Deemed revenue x Deemed profit rate

and

**CIT payable** = Deemed profit x CIT rate

After the tax registration, the RO shall confirm the deemed profit rate with the competent tax authority. Please note that the deemed profit rate shall be no less than 15%.
The expenses incurred by the RO that shall be considered in the application of the cost-plus method includes wages and salaries, bonus, allowances, welfare expenses, procurement expenses (i.e., fixed assets), communication expenses, travel expenses, rental, equipment leasing fee, transportation fee, business entertainment fees, and other expenses that are paid to employees within and outside China.

**2. VAT liability**

A RO conducting taxable activities according to the Value-Added Tax Interim Regulations of the People's Republic of China ("**VATIR**") shall be subject to VAT.

There are two categories of VAT taxpayers:

- Small scale taxpayers
- General VAT taxpayers

General taxpayers are entities with a certain degree of organization and with a sound accounting system, that are able to compute accurately input VAT and output VAT from their transactions; those taxpayers are therefore entitled to the VAT credit system, according to which the output VAT arising from taxable transactions can be offset with deductible input VAT.
Small-scale taxpayers are those taxpayers without a sound accounting system, with annual taxable revenue less than CNY 5,000,000. Small-scale taxpayers shall follow a simplified VAT calculation, according to which the output VAT is computed according to a lower VAT rate, but the input VAT is not allowed to be credited or deducted.
From the practical perspective, a RO can be treated as general VAT taxpayer: the output VAT is calculated based on the deemed revenue calculated according to the cost-plus method, and the 6% VAT rate applicable to the provision of services. RO that are characterized as general VAT taxpayers can deduct the input VAT from the amount of output VAT when determining the VAT payable.
A RO that is characterized as small-scale taxpayer shall compute the VAT payable based on the VAT rate of 3%, and no input VAT is allowed in deduction.

**3. Local additional surcharges**

A RO is subject to LAS that are computed on its VAT payable. LAS refer to three different types of surtaxes that are levied on VAT taxpayers, consumption tax, and previously business tax. These surtaxes consist of the urban maintenance and construction tax ("**UMCT**"), the education surcharge, and the local education surcharge.
UMCT is levied according to the location of the taxpayer (7% for taxpayers located in the city, 5% for county/town area, and 1% for other areas), while the education surcharge and the local education surcharge are levied at a flat tax rate of 3% and 2% respectively. The base for the surcharges is the total VAT, CT, and business tax payable by the taxpayer in a certain period.

## Investing in Jiangxi

Located in South-Central China, the province of Jiangxi is acknowledged to be an important center for the development of China's aviation sector; furthermore, the economy is based on the exploitation of rich mineral deposits and the processing of ferrous and non-ferrous metals, and on the emerging industries of electronics, telecommunications, and the production of electrical machinery in Jiangxi province. Nanchang is the capital and the largest city of Jiangxi province. The province of Jiangxi covers a total surface area of 166,900 km2 with a population of 45.1 million inhabitants. Local authority data shows that Jiangxi Province recorded total exports of USD 42 billion and total imports of USD 16 billion, with 6,137 established foreign investment companies. In addition to an average urban salary of USD 10,363.
In terms of GDP among the provinces in China, Jiangxi ranked 15th, reaching USD 372 billion in 2020 and USD 356 billion in 2019 with a GDP per capita of USD 7,979. Along with GDP growth of +8.0% in 2019 and +3.8% in 2020.

**Main Economic Centers (GDP) in Jiangxi**

- Nanchang (USD 83 billion)
- Ganzhou (USD 53 billion)
- Jiujiang (USD 47 billion)
- Yichun (USD 40 billion)
- Shangrao (USD 38 billion)

**Main Sectors in Jiangxi**

- Raw material
- Agricultural products
- Electronics
- Industrial machinery

**Main Industrial Areas in Jiangxi**

- Nanchang Economic and Technological Development Zone
- Longnan Economic and Technological Development Zone
- Pingxiang Economic and Technological Development Zone
- Jiujiang Economic and Technological Development Zone
- Jinggangshan Economic and Technological Development Zone
- Yichun Economic and Technological Development Zone
- Shangrao Economic and Technological Development Zone
- Nanchang High-tech Industrial Development Zone
- Jingdezhen High-tech Industrial Development Zone
- Fuzhou High-tech Industrial Development Zone
- Nanchang Comprehensive Bonded Zone
- Jiujiang Export processing Zone

## China Tax Payment Credit Rating

The State Taxation Administration (“STA”) has recently issued the Announcement on Relevant Matters Concerning Tax Payment Credit Rating and Repair (the “Announcement”), with effect from January 1, 2022.
The Announcement sets forth the provisions on extending the scope of tax payment credit repair, supporting tax payment credit repair for enterprises subject to bankruptcy reorganization, adopting the system of “exemption from punishment for first violation”, among others.

The Announcement adds new provisions on the circumstances for the tax payment credit repair for enterprises with serious dishonest acts and those subject to bankruptcy reorganization.
For enterprises that have met one of five circumstances specified in Article One of the Announcement, if they have corrected their dishonest act related to tax payment credit and performed tax-related legal liability, the information on the party with dishonest act will not be disclosed or has ceased to be disclosed (in case of major violation), and there are no new records of tax payment dishonesty in the tax management system for six months or 12 months, or where other conditions are met, they may apply to tax authority for tax payment credit repair.

## China-Cambodia FTA into effect 1 Jan 2022

China's Ministry of Commerce announced that The China-Cambodia Free Trade Agreement will come into effect on January 1, 2022.
The China-Cambodia Free Trade Agreement was signed on October 12, 2020, and Cambodia has more than 340 products that can be exported to China, 95% of which have zero tariff and the other 5% will be reduced in 10 years or within a specified period.
Cambodia's exports to China have maintained a growth rate of 6% to 10%. Among them, the main products exported from Cambodia to China are garments, footwear, rice, rubber, cassava, bananas, cashew nuts, and others.
Most of Cambodia's duty-free products to China are chemical minerals for industrial use, and plastics for assembly and export.
China is Cambodia's largest trading partner, and bilateral trade between China and Cambodia reached nearly $5 billion in the first half of 2021, up 31 percent year-on-year.

## China Deferred Tax Q4 2021

The State Taxation Administration (“STA”) and the Ministry of Finance (“MOF”) have recently distributed the Announcement on Relevant Matters Concerning the Deferral of Some Taxes for Medium, Small and Micro Manufacturing Enterprises for the Fourth Quarter of 2021 (the “Announcement”) for implementation from November 1, 2021.
The Announcement specifies the method for recognition of the annual sales of medium, small and micro manufacturing enterprises, making clear that the taxes to be deferred are the enterprise income tax, individual income tax (excluding withholding tax), domestic value added tax, domestic consumption tax, and the supplementary urban maintenance and construction tax, education surcharge and local education surcharge, excluding the taxes paid for requesting taxation authorities to issue invoice, for October, November and December of 2021 (in the case of monthly payment) or for the fourth quarter of 2021 (in the case of quarterly payment). The Announcement also stipulates that medium-sized manufacturing enterprises may defer 50 percent while small and micro manufacturing enterprises may fully defer all taxes specified in the Article 3 of the Announcement. The deferral period will be three months.

## Nanjing Talents Incentives

Nanjing - “Jiangbei New Area (Free Trade Pilot Zone) High-level Talent Award Supplement Implementation Measures (Trial)”.
Nanjing is situated in the south-west part of Jiangsu province. In 2020, its GDP reached the amount of 1,481.795 billion RMB, which places it in second place in the GDP ranking of Jiangsu province. The city has two main industrial areas: one is known as “Nanjing Economic and Technological Development Zone”, whereas the other is called “Nanjing High-tech Industrial Development Zone”. The individual income tax has changed over the years. Following the tax burden in 2022 for foreign individuals, several cities and prefectures are focusing on special awards and incentives to be granted to foreign talents.
Comprehensive Department of the Jiangbei New District Working Committee of the Nanjing Municipal issued the announcement at 9th Mar. 2021 that a company in the required industry and registered in Jiangbei New Area newly

introduces high-level talents with annual salary income more than CNY 500,000 could receive reward 90% of the personal economy contributions to the new district in the previous year from January 1 2021 and last for one year.

## Deferred Tax for Reinvested Profits

According to China's Company Income Tax Law, non-resident investors receiving dividends from their Chinese subsidiary shall be subject to a withholding tax, which is generally equal to 10%, unless a reduced rate from a tax treaty applies.
In December 2017, the China State Administration of Taxation (SAT), jointly with the Ministry of Finance (MOF), the National Development and Reform Commission (NDRC), and the Ministry of Commerce (MOC), issued the Circular on "Policy Issues concerning Temporarily Not Levying the Withholding Tax on Distributed Profits Used by Overseas Investors for Direct Investment" (Caishui [2017] No. 88, "Circular 88"), to implement several decisions made by the State Council to boost foreign investments. Circular 88 introduced a tax deferral policy for profits obtained by foreign investors, which are directly reinvested in another encouraged project.
In September 2018, the SAT issued the Circular on "Expanding the Application Scope of Withholding Deferral Treatment on direct reinvestments made by foreign investors" (Caishui [2018] No. 102, "Circular 102"), extending the scope of the preferential treatment introduced by Circular 88.
Under the preferential treatment, foreign investors who obtain distributable profits from a Chinese resident subsidiary can enjoy a deferral of the withholding tax which would otherwise be imposed on the distribution, provided certain conditions are met and upon filing procedure.
To benefit from the preferential treatment, the following conditions shall be satisfied:

1. **Direct investment**: the non-resident investor shall use the distributable profit for another direct investment in China, which includes:

- Injection in capital or reserve of a Chinese resident enterprise;
- Establishment of a new Chinese resident enterprise;
- Acquisition of the equity of a Chinese resident enterprise from unrelated parties; and
- Other forms of investments specified by MOF and SAT.

A direct investment does not include:

- Injection in capital or reserve of publicly listed companies (unless the investment is considered as a strategic investment according to MOC Order [2005] no. 28;
- Acquisition of equity shares of publicly listed companies (unless the investment is considered as a strategic investment according to MOC Order [2005] no. 28; and
- Acquisition of the equity of a Chinese resident enterprise from related parties.

2. **Qualified distributable profit:** it refers to dividends and profit on an equity investment from the distribution of realized retained earnings by the Chinese resident enterprise, including undistributed profits in prior years.

3. **Profit must be directly transferred to the investee enterprise:** if the investment is in cash, it must be remitted directly to the bank accounts of the investee; if the investment is in kind, it must be transferred directly to the investee.

4. **Investment in not prohibited projects:** According to Caishui 88, the investee enterprise/s shall be engaged in encouraged projects under the "*Industry Catalogue Guide for Foreign Investment" or under the "Preferential Industry Catalogue for Foreign Investment in Central and Western Regions*". This requirement has been abolished by Caishui 102, which extended the preferential tax policy to all foreign investments that are not prohibited for foreign investments.

The preferential treatment can be applied for qualified dividends received from January 1, 2017 and is subject to filing from the distributing enterprise with the relevant PRC tax authorities.

## Suzhou Foreign Talents Policy

Suzhou – “Several Measures to Facilitate the Work and Life of Foreign Talents”.
Suzhou is situated in the south part of Jiangsu province. In 2020, its GDP reached the amount of 2,017.05 billion RMB, which places it in the first place in the GDP ranking of Jiangsu province. The city has two main industrial areas: one is known as “Suzhou Industrial Park”, whereas the other is called “Suzhou High-tech Industrial Development Zone”. The individual income tax has changed during the years. Following the tax burden in 2022 for foreign individuals, several cities and prefectures are focusing on special awards and incentives to be grated to foreign talents.
Suzhou Industrial Park Administrative Committee issued the announcement at 22nd Feb. 2021 that qualified foreign high-end talents with an annual salary of CNY 400,000 and above and paying individual income tax in the Suzhou Free Trade Zone will be rewarded at a rate from 5% to 20% of the annual salary from the measures issuing date.

## RCEP to enter into force in January 2022

The Regional Comprehensive Economic Partnership (RCEP), the largest free trade agreement by aggregated GDP of its members signed on November 15, 2020, will enter into effect on January 1, 2022.
The ASEAN Secretariat announced that as of November 2, 2021, six ASEAN members (Brunei, Cambodia, Laos, Singapore, Thailand, and Vietnam) had ratified the agreement together with Australia, China, Japan, and New Zealand. According to the provisions in the agreement, the RCEP will enter into effect sixty days after the above date, on January 1, 2022.
With an aggregated GDP of over 26 trillion USD (accounting for 30% of global GDP) and almost a third of the world’s population, RCEP is expected to boost trade and investments by removing barriers and 90% of the tariffs among the participating members within 20 years from coming into effect and providing preferential access into growing markets in the region.

## Jiangsu High-level Talents Policy

Jiangsu – “Detailed Rules for the Implementation of the Interim Measures for the Residence Permit System for Overseas High-level Talents in Jiangsu Province”.
Jiangsu province is situated in the east part of China. In 2020, its GDP reached the amount of 10,271.9 billion RMB, which places it in the second place in the GDP ranking of Chinese provinces and municipalities. The province is one of China’s most economically developed provinces and it is among the main recipients of FDI flowing into China, including Italian ones, focusing on the production of industrial machinery and equipment, electronics, petrochemicals, textiles and new materials. The individual income tax has changed during the years. Following the tax burden in 2022 for foreign individuals, several cities and prefectures are focusing on special awards and incentives to be grated to foreign talents.
Government of Jiangsu Province issued the announcement that qualified overseas high-level talents in Jiangsu Province can receive a policy reward based on the paid individual income tax of salary category for last year, in practice, the local government set the basement as 40%.

## China new tax on residential properties

According to the announcement from the Standing Committee of the National People’s Congress made on October 23rd, China will soon implement a pilot plan for levying a real estate tax on residential and non-residential real estate properties.

The plan will be implemented in certain areas, still to be announced, and will last for at least five years. Differently from similar taxes already imposed in cities like Shanghai and Chongqing, the new real estate tax will have a broader scope, hitting both homeowners and land-use rights holders and all types of real estate properties, with the exclusion of rural house sites and the properties built thereon.
China already imposes annually a real estate tax on property, equal to 1.2% of the residual value of the property (or 12% of the rental income, if leased out). Currently, properties owned by individuals for non-business purposes are not subject to real estate tax.
The new measure aims to reduce the speculation that led to the soaring of real estate prices, especially in first-tier cities, and to mitigate the burden for middle-class families when purchasing their apartments.
The policy is ideally in line with recent declarations from the CPC about common prosperity and the building of a more equitable society by expanding the middle class and narrowing the gap between the higher-income and lower-income groups.

## China Common Prosperity

"Common prosperity" is China's new development strategy, which is in line with the medium-long term objectives of the country’s 14th five-year plan (2021-2025) and is one of the nation's key long-term targets through 2035, when China is expected to achieve basic modernization.
In fact, President Xi, announced on July, during the celebration of the 100th anniversary of the founding of the CPC, that China had accomplished its first centenary goal - building a moderately prosperous society in all respects. Then in mid-August, Xi stressed efforts to promote common prosperity in the pursuit of high-quality development and coordinate work on forestalling major financial risks.
The concept of common prosperity is not new in Chinese politics. It appeared when former Chinese leader Deng Xiaoping initiated economic reform in the late 1970s, and at the 1992 14th National Congress of the CPC that declared its aim was to build a socialist market economy.
In order to achieve a more equal distribution of wealth, the CPC has implemented a series of tax policies to increase disposable income for low-income families by including additional deductions in tax calculations. Furthermore, new wealth taxes will be imposed at the national level on inheritance and real estate, which will reach the richest segments of society.
China’s per capita GDP is predicted to increase from USD 10,687 in 2020 to USD 23,000 in 2035. In such a span of development, according to cross-national data, the average proportion of government expenditure to GDP increases from 26% to 36%. This indicates a huge leap in the expansion of the welfare state which can significantly narrow the income gap.
The Chinese economy is experiencing a period of steady growth and the domestic recovery remains solid, according to vice president of the National Development and Reform Commission Ning Jizhe.
While Beijing has not included any average annual growth targets in its 2021-2025 economic plan, unlike the previous five-year plan released in 2016, it has committed to keeping growth within a reasonable range over the five-year period, setting the 2021 GDP target higher than 6 percent, according to Premier Li Keqiang's statements.
Beijing has showed an exceptional ability to react to the pandemic, returning to growth levels seen in the pre-pandemic period: GDP growth in the first half of 2021 recorded +12.7%, while international trade, of which China is the main actor, increased by 37.6%. Also, consumption and retail sales increased by over 23% in the first six months of the year.
In the second half of the year, major international organizations, such as the IMF and the World Bank, and major investment banks expect a slight change in their GDP estimates, due to various factors, however, GDP growth for 2021 is expected to be between 8% and 9% on an annual basis.
China thus confirms itself as the main engine of economic recovery in Asia and continues to be a very popular destination for foreign investors: after being one of the few economies to have seen positive numbers in relation to foreign direct investments in 2020, Beijing recorded investment inflows in the period January - June of over USD 90 billion, an increase of 34% compared to the previous year, and of 27% compared to the first half of 2019.
It is also interesting to note a growth in investments from the ASEAN countries (+51%) and the European Union (+ 10%). Investments mainly concerned the service sector (+29%), and the high-tech industry (+ 34%).

## China Draft Negative List 2021

On October 8th, the National Development and Reform Commission issued a revised draft of the Negative List for Market Access (2021 Edition) in order to optimize the investment environment and for a further opening-up. The Negative List consists of two categories: the prohibited access, which list the industries where market players cannot enter, and the permitted (but restricted) access, where an entity can enter only upon approval, qualification, license, permission and others.
Unlike the Negative List for Foreign Investment Access, the Negative List for Market Access applies to domestic and foreign entities, including state-owned enterprises, private companies, joint-ventures, and foreign-invested enterprises.
The revised draft lists 6 prohibited access items (compared to the 5 in the 2020 Edition) and 111 permitted access items (7 less than the 2020 Edition).
The new item in the prohibited access category refers to the prohibition to conduct news and media-related businesses in violation of regulations. In the specific, non-public capital entities are not allowed to engage in activities and businesses such as news gathering, editing, and broadcasting, invest in the establishment and operation of a news organization, engage in the live broadcasting of political, economic, military, diplomatic, social, cultural technological, and other events, to introduce news published by foreign entities and to hold forums and summits in the news field.
In addition, mining of cryptocurrencies has been included among the forbidden businesses, resulting in a complete ban in the territory of China.
On the other hand, 7 items have been removed from the permitted but restricted access category (upon license, qualification, approval, and permission).

Those items are as following:

- Without permission, no offshore satellite resources may be leased, or international communications import, and export bureau established;
- No shares may be issued, or a merger or reorganization of a particular listed company may be carried out without permission;
- Without permission, may not engage in foreign-related statistical investigation business;
- Without obtaining permission or qualification, no construction of lightning protection devices shall be carried out in a restricted area, and no lightning protection devices shall be detected;
- Security training may not be carried out without permission;
- You may not engage in business related to medical radioactive products without obtaining permission or qualification conditions;
- Internet financial information services may not be performed without permission.

The above businesses, that were permitted but restricted according to the Negative List 2020 Edition, have been removed from the 2021 Draft edition.

## Asia and Global Tax 15%

In June 2021, 130 nations and territories have reached a broad agreement, publishing a statement, about the establishment of a minimum global tax of 15% on corporate income, targeting about 100 big-tech companies making at least 23.7 billion USD (20 billion EUR) in revenue with a profit margin of 10%.
The detailed plan would be put forward for a final agreement by October 2021, aiming at putting the new mechanism into force in 2023.
By adhering to the proposed Global Tax Rate, countries will be able to tax the income of their multinational groups with a presence in areas with lower taxation. For instance, a Chinese company that generates foreign income in jurisdictions with taxes below the 15% threshold can be taxed in China, which has joined the statement on the agreement, thus dissuading the use of entities in low-tax regions and countries. This will affect the strategy of multi-national groups

which use special purpose vehicles in tax havens to make foreign investments, stock market listings, and expansions into new regions.
China joined the Global Tax and has a corporate income tax (CIT) of 25%, with a lower rate of 15% for high-tech investments and in the Western provinces and Hainan Island.
Low tax jurisdictions in Asia are primarily located in the Middle East, with both the United Arab Emirates and Bahrain having a 0% effective corporate income tax rate, while Qatar collects 10% and Oman and Kuwait levy a 15% tax rate on businesses. Nevertheless, all the mentioned countries, apart from Kuwait, have joined the statement, together with Armenia, Georgia, Israel, Jordan, Saudi Arabia, and Turkey in Western Asia.
India, after rolling out its own digital tax similarly to China and the US, has also joined the statement. India is considered a high-tax jurisdiction. With reference to the other major Asian economies, Japan and South Korea have also joined. Japan has a CIT of 23.2% and South Korea 25%. In the Eastern Asian region, Mongolia has also joined the statement. In Southern Asia, further than India, also Pakistan and the Maldives have joined the statement. Iran, Bangladesh, and Sri Lanka have not joined, despite their CIT rates being all higher than 20%, together with Nepal, Afghanistan, and Bhutan.
In Southeast Asia the average corporate income tax is 20%, which allows Singapore to position itself as an ideal hub for business in the Far East with a 17% corporate income tax rate and other benefits which incentivize business in the region. Malaysia has a CIT at 24%, Indonesia currently levies a 22% tax rate, which will be lowered to 20% in 2022, while Thailand’s and Vietnam’s rates are 20%. They have all agreed to join the statement, together with Brunei. Contrariwise, Cambodia, Laos, Myanmar, Philippines, and Timor-Leste have not joined the statement.
Looking at the Central Asian countries, only Kazakhstan has agreed to join the statement. Kazakhstan imposes a CIT of 20%, while 15% and 10% are levied by Uzbekistan and Kyrgyzstan respectively. Conversely, Tajikistan has two different impositions of 13% for entities producing goods and 23% for all others, whereas Turkmenistan collects 8% from domestic entities and 20% from foreign companies.
The proposed harmonization of a Global tax rate for corporation could impact regional investment strategies with multiple entities in different jurisdictions in Asia, favoring countries and regions with taxation above the threshold mark.

## China’s Intangible Heritage

China is ranked number 1 in a rating of nations with the best UNESCO intangible cultural heritage. UNESCO has 42 items of intangible cultural heritage on its list at present. France is ranked second with intangible heritage items. Japan is ranked third. There are 22 cultural heritage components in Japan. With 21 intangible heritage items, South Korea is ranked fourth.
The central government authorized the fifth representative list of State-level intangible cultural heritage items (185 in total) and an expanded representative list of State-level intangible cultural heritage items, according to a circular published by the General Office of the State Council on June 10 (140 in total). Both lists were submitted by the Ministry of Culture and Tourism.
The nine categories on the representative list include: folk literature; traditional music; traditional dance; traditional drama; quyi (a general term for Chinese folk vocal art forms such as ballad singing, storytelling, comic dialogue, clapper talk, and cross-talk); traditional sports; entertainment and acrobatics; traditional fine arts; traditional craftsmanship; and folk customs. The enlarged list now includes traditional medicine, increasing the total to 10.
Furthermore, traditional tea processing techniques and associated social practices in China are being treated for the 2022 cycle, which will be examined by the Committee at its 17th session in November/December 2021, as China’s intangible heritage candidate to be inscribed by UNESCO at the next global session.
Based on natural circumstances and local customs, tea producers have produced six types of green, yellow, dark, white, oolong, and black teas, as well as reprocessed teas such as flower-scented teas, resulting in over 2,000 tea products. Tea is entrenched in the daily life of the Chinese people. Tea is served steeped or boiled in homes, companies, tea rooms, restaurants, temples, and other public places, and it is utilized as a method of communication in social events and rituals such as marriages, apprentice taking, and sacrifices. It represents the Chinese people's principles of humility, harmony, comity, and respect, and has a major influence on moral and psychological development. It also fosters cross-cultural contacts and reciprocal learning through the Silk Roads, resulting in long-term societal growth.

Since China passed the Intangible Cultural Heritage Law in 2011, 26 provinces and regions have issued guidelines for the protection of their intangible cultural heritage. More than 1 billion yuan ($ 140.91 million) is invested in the country's intangible cultural heritage every year.
Chinese authorities have announced plans to establish 20 national-level intangible cultural heritage museums during the 14th Five-Year Plan (2021-2025).

## Company Statutory Reserves in China

Companies investing in China can distribute dividends to their shareholders after paying taxes, allocating reserves and an audit.

**Statutory Common Reserve**

According to the PRC Company Law Article 166, 10% of the after-tax profits at the time of distribution of dividends must be allocated to a statutory common reserve up to the cap of 50% of the registered capital.
Such reserve should reach an amount equal to 50% of the registered capital. When such cap has been reached, the company is allowed to distribute the whole after-tax profits with no allocation to reserves.

**Company Law Article 166**

Where a company distributes its after-tax profits for the current financial year, it shall draw 10% of its profits as the company's statutory common reserve, provided that a company with an aggregate common reserve of more than 50% of the company's registered capital may elect not to draw any statutory common reserve anymore.
Where the aggregate balance of the company's statutory common reserve is insufficient to cover any loss the company made in the previous financial year, the current financial year's profits shall first be used to cover the loss before any statutory common reserve is drawn therefrom in accordance with the provisions of the preceding paragraph.
Where any company has drawn a statutory common reserve from its after-tax profits, it may, subject to a resolution of the shareholders' meeting or the general meeting of shareholders, draw a discretionary common reserve from its after-tax profits.
Where losses have been covered and the statutory and discretionary common reserves have been drawn, any remaining after-tax profits shall be distributed to shareholders in accordance with Article 34 of the Law in case of a limited liability company or on a pro rata basis in case of a joint stock limited company, unless its articles of association provide distribution shall not be made on a pro rata basis.
Where the shareholders' meeting, general meeting of shareholders or board of directors distributes profits in violation of the provisions of the preceding paragraph before losses are covered and the statutory common reserve is drawn, the profits distributed must be returned to the company.
No profit may be distributed for shares held by the company itself.

**Allocation of Common Reserves**

In financial statements, common reserves include Capital Reserve (used for capital increase) and Surplus Reserve, including the statutory allocation of 10% of after-tax profit. Other surplus reserves can be related to Staff Reward and Welfare Fund, Business Development Reserve, and others.
With reference to the use of a reserve, it shall be considered that a common reserve can be used to cover losses from previous years and expand business, while a capital reserve cannot be used to cover losses.
Moreover, it is possible to convert a statutory common reserve into capital (art. 168) [common reserve → capital reserve → capital] but the value of reserve after the conversion shall be not lower than the 25% of the registered capital prior the conversion

**Company Law Article 168**

A company's common reserves shall be used to cover losses made in past years, to enhance the company's productivity and expand its business or to increase its registered capital; however, a company's capital reserve shall not be used to cover the company's losses.s
Where the statutory common reserve is converted into capital, the value of the remaining common reserve shall be no less than 25% of the company's registered capital prior to the conversion.

### Legal Representative: Duties and Responsibilities

Companies in China are required to have a Legal representative to act as the natural persona to the companies legal persona, in essence to have a person directly responsible and liable for a companies actions. Due to this, the Legal representative role is the important role in a company and is attributed critical duties and responsibilities.
A Legal representative has the statutory power to represent and bind the Company towards third parties. The legal rep also representes the company to Chinese officials as well as submitting reports to Chinese regulatory bodies. The Legal Rep is the designated signatory for the company on such documents as tax documents, contracts and other legal documents which are to be handled and signed only by the Legal representative.
In China, one of the main duties of a Legal representative is the safekeeping of the company's seal or "chop". The seal will be used on a number of legal documents for the company and operational activities will only be executed with the seal. The Legal representative is also responsible for the safeguarding of the company's assets and carrying out any legal transactions that are within the company.
As a Legal representative is the key decision maker of the Company, the legal rep must fulfill all acts in accordance to the PRC Company Law. A Legal representative has a duty of care of a reasonable person towards the company, which means that he must perform duties in a manner which is in the best interests of the Company. The Legal representative is obligated to attend board of director meetings as chairman, obey Chinese laws and company laws as well as deliver relevant information to the Board of Supervisors. The Legal representative is also required to exercise loyalty toward the company. He must achieve maximum benefits for the company and not any other entities.

### China applies to join CPTPP

China officially submitted its bid to join the Comprehensive and Progressive Agreement for Trans-Pacific Partnership (CPTPP) on September 16th, 2021. The Comprehensive and Progressive Agreement for Trans-Pacific Partnership is a trade agreement between 11 Pacific Rim nations: Australia, Brunei, Canada, Chile, Japan, Malaysia, Mexico, New Zealand, Peru, Singapore and Vietnam, which now has two candidate applicants, the United Kingdom and the People's Republic of China. The trade partnership composes approximately 500 million people and generates more than 13% of the world's income.
A key benefit of membership is greater access to the constituents' markets, and a pledge to eliminate or reduce 95% of import charges or tariffs, with a small number of carveouts for sensitive domestic areas, such as the Canadian dairy industry or the Japanese rice industry. In addition, there is a "rule of origin" incentive that manufacturers which source components from multiple places can utilise, so their products qualify for preferential treatment. If 70% of those components come from any of the participating countries, then the manufacture can take advantage of the rule.

### Shenzhen-Qianhai Economic Zone

China announced an expansion of the Qianhai economic cooperation zone in Shenzhen. The Qianhai zone, which was opened in 2010, will increase in size to approximately 120 square kilometres increased from roughly 15 square kilometres currently. The expansion is part of a plan to further integrate the economies of the Greater Bay Area which includes Guangzhou, Shenzhen and other Pearl River Delta cities.
The economic zone is set to develop the financial industry and to encourage innovation in financial institutions, financial markets, financial products, and financial supervision. Building on the tech success of Shenzhen, there is an additional focus on artificial intelligence, health care, financial technology, smart cities, the Internet of Things, and new energy materials.

## China's Advance Pricing Arrangements

The State Taxation Administration ("STA") has issued the Announcement on Matters Regarding the Application of the Summary Procedure to Unilateral Advance Pricing Arrangements (the "Announcement") for implementation from September 1, 2021.
The Announcement specifies that, where enterprises applying for unilateral APAs in accordance with the relevant provisions of the Announcement of the State Taxation Administration on Matters Regarding Refining the Administration of Advance Pricing Arrangements meet the requirements hereof, the summary procedure may apply. The summary procedure shall include three stages, namely, application and assessment, negotiation and signing, and monitoring and implementation.
The Announcement makes clear that, enterprises meeting any of the three conditions, such as "having provided the tax authority with the contemporaneous documentation as prescribed in the Announcement of the State Taxation Administration on Matters relating to Improvement of the Filing of Related-Party Transactions and the Management of Contemporaneous Documentation for the three tax years prior to the year when the application is submitted", may request for the application of the summary procedure.
However, where enterprises have any of the five circumstances, such as "failing to prepare, preserve or provide the contemporaneous documentation as required", their request will not be accepted by the tax authority.