

China Newsalert

PwC Ireland China Desk



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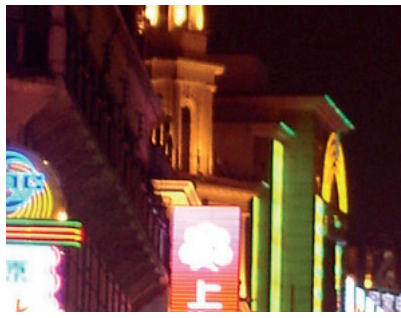
China Tax Reform

On 6 December 2007, China's State Council approved regulations implementing new corporate income tax laws, which will come into effect on 1 January 2008. The regulations reform the existing corporate tax system and may significantly impact foreign owned operations in China. Some key provisions for foreign investors have been summarised below:



- Dividends repatriated from China to a foreign parent are currently exempt from dividend withholding tax. A new 10% rate of withholding tax will apply to dividend payments from 1 January 2008 unless a lower rate applies under a double tax treaty. The Ireland/China double tax treaty provides for a favourable 5% rate of dividend withholding tax provided the recipient company holds at least 25% of the shares in the Chinese company.
- A uniform tax rate of 25% will apply to both domestic and foreign owned Chinese companies. Existing tax holidays and preferential tax rates will be grandfathered for foreign owned entities registered prior to 16 March 2007.
- A preferential corporate tax rate of 15% and other favourable tax legislation will apply to certain technology companies. Preferential tax legislation will also apply to businesses operating in certain industries, such as infrastructure, energy, agriculture etc.
- The regulations summarise additional anti-avoidance rules which will be introduced from 1 January 2008 in the areas of transfer pricing documentation, the ability to use cost sharing agreements and the application of thin capitalisation rules (i.e. a debt equity ratio) to inter-group lending. In certain circumstances, China may seek to immediately tax reserves of foreign subsidiaries located in low tax jurisdictions under a new controlled foreign corporation ("CFC") regime. A low tax jurisdiction is one which has an effective tax rate of less than 12.5%.

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- Tax free group reorganisations may no longer be permitted under the new rules.
- Companies which are managed and controlled in China will now be subject to tax on their world-wide income under new tax residency rules.
- The regulations also clarify expense deductibility rules.

Given the extent of the changes, investors in China should urgently consider the effect of the rules on their Chinese operations in order to actively manage any tax exposure arising.

The regulations will be supplemented over the coming months with circulars and guidelines to clarify uncertainties and provide additional detail. We will issue further newsalerts when additional guidance is published. For more detailed information on Chinese tax reform and for access to an unofficial PwC translation of the regulations please refer to the links below.

[Please click here for further information on Chinese tax reform](#)

[Please click here for an unofficial PwC translation of the regulations](#)

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