

China *Newsalert*

PwC Ireland China Desk



Issue 1 March 2007

PwC is dedicated to delivering effective solutions to the complex business challenges facing companies operating in the Chinese market. In conjunction with our colleagues in China, we have extensive experience in working with companies on industry-specific strategic, operational and financial issues. Our expertise includes assurance, tax and advisory services, as well as specialist offerings such as regulatory compliance, risk management and performance improvement.

For issues relating to this news alert please contact your usual PwC contact or the specialists listed at the end of this article.

Disclaimer: This news bulletin is intended only to provide a general guide to the subject matter. Professional advice should always be taken before acting on any information contained in this guide.

Message from Colm Kelly Head of Tax and Legal Services, PwC

Welcome to the first issue of China Newsalert. This is a new publication from PricewaterhouseCoopers Ireland dealing with topical tax, accounting and regulatory developments in China. These topics will be of interest to businesses operating in China or considering expanding into this market. Each issue of the Newsalert will highlight recent developments that may impact on your business or expansion strategies. This is intended to help you to address any issues arising from these changes in a prompt manner.

If you have any comments on the issues raised, any other issues, or indeed on the format of the Newsalert, we would be delighted to hear from you.

This first issue focuses on recent changes to the Chinese tax and accounting regime.

Chinese tax reform

Legislation reforming the corporate tax system was passed by the Chinese Legislature on 16 March 2007. The new provisions unify the tax rate, tax incentives and expense deduction rules for foreign and domestic enterprises operating in China. These laws come into effect from 1 January 2008 and signal a fundamental change in China tax policy for foreign investors.

Under the current system, corporation tax of up to 33% is levied on domestic companies, while numerous designated zones throughout China offer preferential tax rates as low as 15% to foreign investors. Foreign investors are also entitled to avail of tax holidays, export tax incentives and advanced-technology incentives.

However, preferential tax treatment for foreign investors will come to an end from next January, bringing to a close an era that saw the Chinese government create special economic and technology zones with low taxes in order to attract foreign direct investment. A single tax rate of 25% will be introduced over a five year transition period for foreign companies already



operating in China. Furthermore, tax holidays and incentives based on geographical location will be phased out. Future tax incentives will focus instead on encouraged industries and activities.

This legislation is expected to have far-reaching consequences for all enterprises currently trading in China and Irish investors considering expanding to this market.

[Please click here for further details.](#)

Real estate developments

Continuing reform of real estate legislation is causing concern for property developers and other investors in the Chinese market.

New rules limiting foreign investment in China's property market were introduced last year in a bid to control increasing property prices. In brief, the measures require foreign investors to acquire Chinese real estate through a China registered company, unless it is residential property being acquired for the investor's own use.

The Ministry of Finance announced further changes earlier this year to the Land Value Appreciation Tax regime. It appears that these changes were introduced in order to curb the heated property market and increase the tax take on property sales.

Land Value Appreciation Tax is a tax on gains realised on the disposal of interests in real property. Despite the recent property boom in China, the tax collected on land sales has been significantly lower than expected. The new statement clarifies the date by which the final balance of tax becomes due and introduces anti-avoidance measures permitting the tax authorities to request the balance of tax due in certain circumstances.

These changes are effective from 1 February 2007 and will be of particular interest to Irish property developers.

[Please click here for further details.](#)

Accounting standards converge with IFRS

Chinese Accounting Standards (CAS) converged with International Financial Reporting Standards (IFRS) in January 2007. The development will be welcomed by both investors and regulators, particularly those who have sought more consistent and reliable financial reporting information from Chinese enterprises. The convergence shows that China is committed to a more open and transparent environment in the global economy.

The revised CAS apply to listed companies from 1 January 2007 and thereafter will be gradually applied to other entities.

[Please click here for further details.](#)

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* Please note: From Tuesday, 10 April 2007 our contact numbers will change as we are moving to new premises at One Spencer Dock, North Wall Quay, Dublin 1.

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