



QFIIs & RQFIIs Chinese Tax Services

Mainland China

Global Financial Services Industry

Overview

The State Administration of Tax (SAT) and the Ministry of Finance (MOF) jointly issued the tax circular Caishui [2014] No.79 in November 2014 clarified that:

 Capital gains derived by QFIs/RQFIs sourced from China prior to 17 November 2014 remain subject to Chinese Enterprise Income Tax (EIT).

 QFIs/RQFIs are temporarily exempt from EIT on China-sourced capital gains derived from transfer of equity interests on or after 17 November 2014.



Tax authorities in **Beijing, Shanghai** and **Shenzhen** have embarked on tax collection from QFIs/RQFIs for their income earned during the period from 17 November 2009 to 16 November 2014. The covered income include China-sourced dividends, interests and capital gains regarding transfer of equity interests derived by QFIs/RQFIs.

Challenges and Difficulties

Given the complexity of tax implication and computation methodology on this matter, we noticed the majority of the local tax authorities prefer QFIs/RQFIs which have derived the relevant income and would like to repatriate it out of China to engage a professional tax agent in the course of data validation, tax computation and tax return preparation and submission for tax filing purposes.

In addition, some QFIs/RQFIs may be eligible for relief under the relevant tax treaty with China. Based on our experience, investment structure of QFIs/RQFIs generally differs on a case-by-case basis and the practice of application for tax treaty relief varies from location to location in China. Accordingly, successful case of being eligible for tax treaty relief is subject to a number of factors, such as a solid understanding of applicable tax rules, extensive practical experiences, quality of documentation, etc.

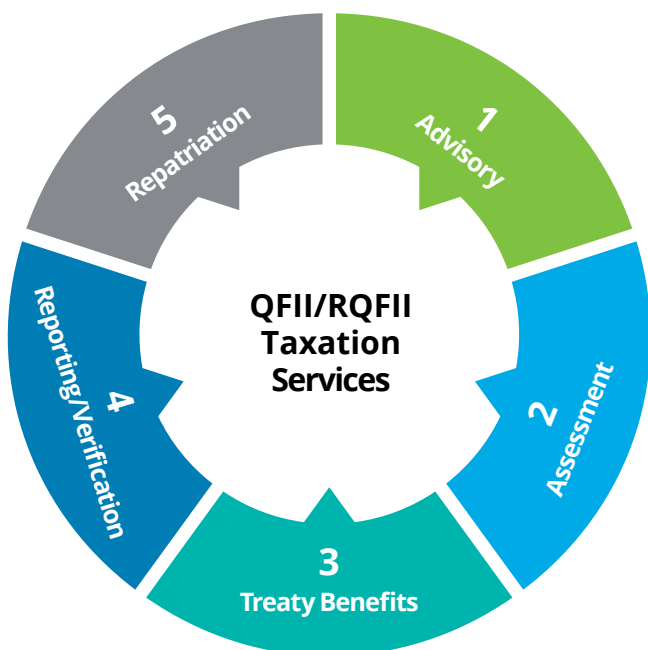
Among many cases we have assisted/ have been assisting in relation to QFI/RQFI's investments, some of the challenges and difficulties QFIs/RQFIs are facing include:

-  Appropriateness/Sufficiency of documentation for income substantiation/reconciliation
-  Uncertain tax treatment on certain items such as EIT treatment on gains derived from foreign exchange conversion of the principal and Value-added Tax treatment on bond interests
-  Separate applications, discussions and negotiations with various local tax bureaus
-  Lack of understanding of international investment structures, and lack of motivation to cooperate by local tax bureaus and relevant listed companies/bond issuers

What Deloitte can help with?

We have extensive experience in assisting QFIs/RQFIs with various Chinese tax matters, including (and not limited to):

1. Advisory on the China tax position of the QFI/RQFI, taking into account the latest developments of the rules and practice, and assistance in developing a strategy for tax reporting of the relevant income.
2. Assessment and support to compute tax liabilities under different scenarios for QFIs/RQFIs, taking into account of the potential tax treaty relief, where applicable.
3. Assistance in application for entitlement of tax treaty relief, where applicable.
4. Assistance in negotiating with the local tax authorities to agree the process and form for tax filings, and assistance with the preparation and submission of the tax filings and/or any verification reports required for the settlement of the tax liabilities. We have extensive experience in assisting QFIs/RQFIs to reconcile their internal transactional records back to the custodial records / reports and can help performing data reconciliation for corporate actions in order to support the tax calculations.
5. Assistance in obtaining tax clearance certificate from local tax bureaus, and coordination of communication with the remitting bank to evidence withholding taxes had been cleared on the relevant income derived by QFIs/RQFIs, and obtain agreement from the remitting bank for cash repatriation out of China.



Why Deloitte?

Over the years, we have acquired extensive experiences and skills in advising, implementing and handholding tax strategy and compliance for QFIs/RQFIs, some of which are listed below:



We are very familiar with the QFIs/RQFIs investment structures and custodian arrangement, and compilation of tax treaty relief application packages which would serve as a solid platform for tax reporting with local tax bureaus.



We know how to tackle difficult situations, challenges and / or queries with various Chinese tax bureaus (both national and local levels), relevant listed companies, local foreign exchange bureaus, custodians, etc. that may arise during the tax filing and tax treaty relief application process.

Contacts

Northern region

Natalie Yu

Partner

Business Tax

Tel: +86 10 8520 7567

Email: natyu@deloitte.com.cn

Eastern region

Johnny Foun

Partner

Business Tax

Tel: +86 21 6141 1032

Email: jfoun@deloitte.com.cn

Southern region

Anthony Lau

Partner/Principal

International Tax Services

Tel: +852 2852 1082

Email: antlau@deloitte.com.hk

William Lee

Director

Mergers and Acquisitions

Tel: +852 2852 1908

Email: willilee@deloitte.com.hk

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