



Tax Newsflash

China

Deloitte Tohmatsu Tax Co.

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China (Shanghai) Pilot FTZ - New Policies to Facilitate Company Relocation to FTZ

The Shanghai Municipal Finance Bureau, State Tax Bureau and Local Tax Bureau jointly issued a circular in late January 2015 to facilitate the relocation of Shanghai companies from outside the China (Shanghai) Pilot Free Trade Zone (FTZ) into the FTZ by neutralizing the potential financial impact of the relocation for the relevant local district-level governments for fiscal years 2014-2016.

Despite the various preferential policies offered by the FTZ, some Shanghai companies are concerned about the response (e.g. possible tax audit) of the local district-level government when a local company relocates to the FTZ, because the authorities potentially would lose future tax revenue from such a relocation. The new circular aims to address this concern.

Currently, tax revenue contributed by a company normally is shared by the various levels of government (e.g. national government and the provincial, municipal, district levels, etc.). According to the circular, the relevant portion of post-relocation tax revenue contributed by the company in 2014-2016 will be reimbursed by the Pudong New Area district-level government to the local government of the district from which the company has moved. In addition, any post-relocation financial subsidies for the same

period that the relocating company would be entitled to by a district-level government will be paid by the Pudong government but ultimately funded by the local government of the district from which the company has relocated. Overall, the policies in the circular are designed to neutralize the tax revenue effect on the relevant district-level governments, i.e. put the governments in the same position as if the company had not relocated to the FTZ.

Shanghai companies considering relocation to the FTZ should welcome the issuance of the new guidance, since it will provide clarity on the consequences of a relocation to the FTZ.

Please follow the [link](#) for a copy of the circular (in Chinese only). You may also access the relevant information and regulations about the Pilot FTZ via Deloitte's dedicated portal page www.deloitte.com/cn/pftz_en.

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Contacts

Vivian Jiang, Partner vivjiang@deloitte.com.cn

Clare Lu, Partner jchow@deloitte.com.cn

Issued by

Deloitte Tohmatsu Tax Co.

Tokyo Office

Shin-Tokyo Building 5F, 3-3-1, Marunouchi, Chiyoda-ku, Tokyo 100-8305, Japan

T E L : +81-3-6213-3800

email: tax.cs@tohmatu.co.jp

URL : www.deloitte.com/jp/en/tax

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