

CHINA FINANCE 2016 Budget Taxation Treasury

中国财政 2016



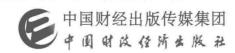


III 国际财经中心 International Economics and Finance Institute

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图书在版编目 (CIP) 数据

中国财政2016: 预算 税收 国库 = China Finance 2016: Budget Taxation Treasury: 英文/国际财经中心编. -- 北京: 中国财政经济出版社, 2017.7

书名原文: China Finance 2016: Budget Taxation Treasury ISBN 978-7-5095-7490-4

I. ①中… II. ①国… III. ①财政 - 概况 - 中国 - 2016 - 英文 IV. ①F812 中国版本图书馆 CIP 数据核字(2017)第 115472号

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责任编辑:罗亚洪封面设计:傅 伟

责任校对: 孙 腾 版式设计: 齐 林

中国财政经济出版社出版

URL; http://www.cfeph.cn E-mail; cfeph@cfeph.cn (版权所有 翻印必究)

社址:北京市海淀区阜成路甲 28 号 邮政编码:100142 发行处电话:010-88190406 北京财经书店电话:010-64033436 天津市银博印刷集团有限公司印刷 各地新华书店经销 889×1194毫米 16开 15.5印张 360 000字 2017年9月第1版 2017年9月天津第1次印刷

定价: 128.00元

ISBN 978-7-5095-7490-4 (图书出现印装问题,本社负责调换) 本社质量投诉电话:010-88190744

打击盗版举报热线: 010-88190492、QQ: 634579818

Acronyms

ADB Asian Development Bank

AIIB Asian Infrastructure Investment Bank

AMRO ASEAN+3 Macroeconomic Research Office

AoA Articles of Agreement

APEC Asia-Pacific Economic Cooperation

ASEAN Association of Southeast Asian Nations

ASEAN+3 Association of Southeast Asian Nations, China, Korea and Japan

Central Asia Regional Economic Cooperation

BAI Business Activity Index

CAREC

BEPS Tax Base Erosion and Profit Transfer

BRICS Brazil, Russia, India, China, and South Africa

CBRC China Banking Regulatory Commission

CIRC China Insurance Regulatory Commission

CPC The Communist Party of China

CPI Consumer Price Index

CPPCC The Chinese People's Political Consultative Conference

CSRC China Securities Regulatory Commission

FDI Foreign Direct Investment

FTA Free Trade Agreement

G20 Group of Twenty countries: Argentina, Australia, Brazil, Canada, China, the European Union,

France, Germany, India, Indonesia, Italy, Japan, Mexico, Russia, Saudi Arabia, South Africa,

South Korea, Turkey, the United Kingdom and the United States

GAC General Administration of Customs, China

GDP Gross Domestic Product

IFAD International Fund for Agriculture Development

IMF International Monetary Found
MDBs Multilateral Development Banks

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MIIT Ministry of Industry and Information Technology, China

MOA Ministry of Agriculture, China
MOE Ministry of Education, China

MOF Ministry of Finance, China

MOFCOM Ministry of Commerce, China

MOHURD Ministry of Housing and Urban-Rural Development, China

MOU Memorandum of Understanding

NBS National Bureau of Statistics, China

NDB New Development Bank

NDRC National Development and Reform Commission, China

NPC National People's Congress, China

OECD Organisation of Economic Co-operation and Development

PBOC People's Bank of China

PMI Purchasing Managers' Index

PPI Producer Price Index

PPP Public-Private-Partnership

S&ED China-U.S. Strategic and Economic Dialogue

SASAC State Assets Supervision and Administration Commission, China

SAT State Administration of Taxation, China

SCO Shanghai Cooperation Organization

SMEs Small And Medium-Sized Enterprises

SOEs State-Owned Enterprises

UNIDO United Nations Industrial Development Organization

VAT Value-Added Tax

WTO World Trade Organization

Preface

It has been nearly nine years since the outbreak of the international financial crisis, but its repercussions are still being felt. The growth of global economy is still weak, while the uncertainties are on the rise, including unclear policy direction and spillover effects of major economies, geopolitical risks and other factors. China's economy has maintained steady growth during the critical stage of transformation, and great achievements have been made in deepening the comprehensive reform and building a moderately prosperous society in an all-round way. In 2016, China's GDP grew by 6.7%, contributing to over 30% of the global economic growth. The supply side structural reform has generated prominent results, as demonstrated in greater contribution by consumption in driving the economy, and higher quality and efficiency of economic development.

In the past year, the Chinese fiscal authorities conscientiously performed their duties, and public finance has played its role as the foundation and an important pillar in the state governance. We have effectively implemented the proactive fiscal policy, and rolled out the VAT pilot reform, which reduced more than 500 billion yuan of tax for businesses. We have promoted the reform of cutting excess capacity, deleveraging, de-stock, reducing costs and shoring up weak areas of the national economy. A special fund was established to support the reallocation of laid-off workers during the process of cutting over capacity in the steel and coal industries. Reforms in the fiscal system were intensified, and progress was made in the reforms of budget management, tax and financial systems. We also further promoted international financial cooperation by successfully holding a series of meetings in the finance track of the G20 Hangzhou Summit, with tangible outcomes in advancing structural reforms and strengthening infrastructure development. We have carried out pragmatic multi-bilateral financial cooperation. The Asian Infrastructure Investment Bank and the BRICS New Development Bank were officially launched and have achieved their annual operational objectives.

"China Finance 2016" compiled important fiscal and tax reform policies, macroeconomic data, as well as the reform practices in local fiscal authorities, issued in 2016 by the Ministry of Finance and other relevant government departments. It also covered academic discussions by fiscal officials and financial experts. The book is helpful for the international community to better understand China's reform and opening up process, its direction of macroeconomic policies, and tax reform progress.

China's development means opportunity for the world. China is a beneficiary of the economic globalization, and also a contributor. Currently, the global economy is lackluster and the anti-globalization and trade protectionist sentiment is on the rise. The Chinese fiscal authorities will focus on coordinated progress of ecological, economic, political, cultural and social development, following the Four-Pronged Comprehensive Strategy. We will make steady progress while maintaining stability, firmly establish and implement the new development concept, and guide and adapt to the economic new normal. We will focus on improving the quality and efficiency of development, push forward the supply side structural reform, expand the aggregate demand as appropriate, so as to foster the sustained and sound economic and social development of China. We will work with international counterparts to strengthen macroeconomic policy coordination under G20, advocate innovation-driven and dynamic growth, and promote global trade and investment, so as to achieve sound coordinated development of the world economy.

史雅斌

Vice Minister
Ministry of Finance, China
May, 2017

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MOF issued a circular on stamp duty policy for financial leasing contracts

On December 31, 2015, the Ministry of Finance (MOF) issued a circular on stamp duty policy for financial leasing contracts. First, financial leasing contracts (including sale-leaseback financing contracts) are subject to 0.005% stamp duty on the total rent, under the tax item of loan contract. Second, in the sale-leaseback financing business, the contracts for sale or repurchase of leased assets are exempt from stamp duty.



Figure 1 The different ways of finance lease

Source: Ministry of Finance of China



MOF issued Interim Measures on the Management of the Special Funds Allocated by the Central Government to Support Public Cultural Service System at Local Level

On December 31, 2015, MOF issued *Interim Measures on the Management of the Special Funds Allocated by the Central Government to Support Public Cultural Service System at Local Level*, which provides the following. First, the special funds are arranged to support basic public cultural service by local governments, and improve grass-root public cultural and sports facilities. Second, the special funds are composed of subsidies and incentive awards, the specific amount of which is to be determined by MOF based on the size of annual earmarked funds. Third, the funds are allocated based on production factors, including basic factors, business factors and financial factors. Fourth, when the funds are transferred to the provincial finance departments, they have to be allocated to provincial agencies and finance authorities at municipal and county levels according to budget procedures within 30 days. Fifth, finance authorities at various levels should establish and improve the supervision and performance evaluation mechanism of the special funds in conjunction with other relevant departments.



MOF issued a circular on improving port construction fee collection

On January 4, 2016, MOF issued a circular on improving port construction fee collection, which provides the following. First, when the waterway inbound cargo undergoes lightering operation or direct transshipment after unloading from the storage yard, the port construction fee is collected only once in the whole process of water transport. Second, when domestic exported goods are loaded in non-open domestic ports in the upper reaches of Nanjing Yangtze River Bridge or other inland rivers, and are unloaded or transferred in open coastal ports or open ports in the lower reaches of the Nanjing Yangtze River Bridge, the port construction fee is collected at the unloading or transshipment port and reduced by half based on the current collection standard. Third, when the cargo is loaded and unloaded at both open ports, the port construction fee is to be collected at the unloading port, and is subject to the higher toll standard of the loading or unloading port.



MOF issued the No.8 Interpretation for the Enterprise Accounting Standard

On January 4, MOF issued the No.8 Interpretation for the Enterprise Accounting Standard, which provides the following. First, when financial assets or financial liabilities are held as wealth management products, they should be properly classified in accordance with the Guidelines of Financial Instruments Recognition Measurement. Second, when financial assets or financial liabilities are measured at fair value, their fair value should be determined in accordance with the relevant provisions of the Fair Value Measurement Criteria. Third, when financial assets are held as wealth management products, except for those measured at fair value and recorded in current profits and losses, they should be subject to impairment evaluation according to the Guidelines of Financial Instruments Recognition Measurement, and the amount of impairment loss should be determined and duly recorded in accounting.



The State Council issued guidance on promoting coordinated development of the primary, secondary and tertiary industries in rural areas

On January 5, the State Council issued guidance on promoting coordinated development of the primary, secondary and tertiary industries in rural areas. First, various industrial co-development models are encouraged in rural areas. Efforts are to be made to foster the new type of urbanization, speed up agricultural structural adjustment, extend agricultural industrial chain, expand multiple functions of agriculture, and develop new agricultural businesses. Second, multiple market players are encouraged to enter rural industries. Measures are to be taken to strengthen farmers' cooperatives and family farms, support leading enterprises to deliver showcase effects, amplify the advantages of integrated services by supply and marketing cooperatives, and encourage private investment. Third, interest and benefit coalition are to be established. Incentives are to be designed to support innovative contract farming, encourage the development of cooperative shares, strengthen industrial and commercial corporate social responsibility, and improve risk prevention mechanism. Fourth, multi-channel services are to be improved to support integration of rural industries. Government agencies are to build public service platforms, provide innovative rural financial services, strengthen personnel and technological support to improve agricultural and rural infrastructure, and support integration and development of rural industries in poor areas. Fifth, the mechanism for promoting integrated growth of rural industries is to be improved. Measures are to be taken to enhance fiscal support, roll out pilot demonstration, and strengthen inter-agency collaboration.



MOF issued guidance on comprehensively enhancing internal control of administrative institutions

On January 7, MOF issued guidance on comprehensively enhancing internal control of administrative institutions. First, the institutions are to set up internal control system based on their actual situations, specify the overall operation processes and procedures, analyze potential risks, improve risk assessment mechanisms, and design risk coping strategies. Second, the institutions

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should delegate administrative power in line with specified responsibilities, posts and hierarchies, and design a regular rotation mechanism, which is to form effective check and balance on the exercise of power, and ensure rigorous internal control. Third, based on the establishment and implementation of internal control, the institutions should actively carry out self-evaluation according to the requirements of the *Internal Control Guidelines*. Fourth, measures are to be taken to strengthen inspection and enhance accountability.



The central public finance stepped up support for the agricultural insurance for rice, wheat and corn in the major counties that grow such crops

According to the news released by MOF on January 8, MOF has recently issued a circular to step up support for the agricultural insurance for rice, wheat and corn in the major counties that grow such crops. (1) Prior to the introduction of the policy, if the provincial subsidies as a percentage of premium exceed 25% (the standard threshold proportion), the central public finance will fund 50% of the subsidies that exceed the threshold. (2) If the provincial subsidies as a percentage of premium rise further and help reduce the fiscal burden of counties, the central public finance will also fund 50% of the costs that result in the lower subsidy expenses for counties.



MOF, GAC and SAT jointly published the Interim Measures for the Exemption of Import Tax for Charitable Donations

On January 8, MOF, the General Administration of Customs (GAC) and the State Administration of Taxation (SAT) jointly published the *Interim Measures for the Exemption of Import Tax for Charitable Donations*. (1) The donations made by overseas donors for charitable purposes are exempted from import duties and import VAT. (2) The recipients of donations shall apply to the customs authorities for tax exemption on the eligible donations, and the customs authorities shall review and approve the application according to rules and regulations. (3) If the donations are subject to special quota, registration and licensing requirements as prescribed by the state, the recipients shall apply to relevant authorities for the quota, registration and import license before the customs authorities permit the clearance. (4) Unless with the approval of the customs authorities, the tax-free import of donations shall not be transferred, mortgaged, pledged or used for other purposes.



MOF published the Measures for the Administration of the Special Funds for Enhancing the Quality of Modern Vocational Education

On January 11, MOF published the *Measures for the Administration of the Special Funds for Enhancing the Quality of Modern Vocational Education*. (1) The targeted areas for the use of the special funds are determined by MOF and the Ministry of Education (MOE) according to the plan of the CPC Central Committee and the State Council as well as the priorities for vocational education development. (2) The special funds are mainly disbursed by the factor method. (3) The special funds

are jointly administered by MOF and MOE. (4) Each year, MOF and MOE will inform the lower-level governments the budgeted sum of the special funds within 90 days after the approval of the central budget by the National People's Congress (NPC). (5) More efforts shall be put on the holistic administration of funds at provincial levels when provincial finance and education authorities allocate the special funds. (6) A robust internal management system and sound rules for fund management shall be put into place and budget execution shall be accelerated in accordance with relevant requirements of budget and treasury management. (7) Provincial finance and education authorities shall administer the funds in a holistic way and make rational allocation. (8) MOF and MOE will conduct inspection and performance evaluation when appropriate based on the use of the special funds in different localities.



MOF published the guidelines on subjecting local government debt to the prescribed limit

On January 11, MOF published the guidelines on subjecting local government debt to the prescribed limit. (1) Keeping the local government debt within the prescribed limit. It is important to determine a limit on total local government debt and set the sub-limits by regions. Local governments are required to borrow strictly within the limit and incorporate their debt into budget management. (2) Improving the risk prevention and control system. The risks of local government debt shall be comprehensively assessed and alerted, the risk diffusion and contingency response system be established and the debt supervision and accountability system be improved. (3) Properly handling the stock of debt. The local governments shall earnestly fulfill their debt repayment obligations and properly handle the contingent liabilities according to the laws.



MOF published the Guidelines on Further Regulating and Strengthening the State Asset Management in Public Institutions

On January 14, MOF published the Guidelines on Further Regulating and Strengthening the State Asset Management in Public Institutions. (1) Further defining the mandates of finance authorities, competent authorities and public institutions and strengthening finance authorities' comprehensive management function and competent authorities' specific supervision function. (2) Emphasizing the role of public institutions as entities accountable for possessing and using state assets, calling for more efficient use and more regulated disposal of state assets, and specifying the requirements for better managing asset allocation, use and disposal. (3) Raising requirements concerning the management of public infrastructure, government reserve assets and natural resource assets as well as the enterprises affiliated to public institutions.



The State Council issued the Plan for Promoting Inclusive Financial Development (2016-2020)

On January 18, the State Council issued the Plan for Promoting Inclusive Financial Development

(2016-2020), which outlined the following. First, the financial system should be composed of diversified and broad-coverage institutions. Various types of banking institutions are encouraged to play an active role. The development of new institutions should be properly regulated. Insurance companies should tap into their advantages as safeguarding institutions. Second, innovative financial products and services are encouraged. Incentives should be given to financial institutions in their innovation and technology upgrading, and using the Internet to enhance the development of inclusive finance. Third, financial infrastructure development is to be accelerated. Priority should be given to the development of rural payment system, inclusive financial credit information system, and inclusive financial data-banks. Fourth, policies are to play an important role in guidance and incentives. Efforts should be made to improve the monetary and credit policies, and apply differentiated incentives in financial supervision. Fiscal policy is to play its role with stronger local support.



The State Council issued guidance on promoting innovative development of processing trade

On January 19, the State Council issued guidance on promoting innovative development of processing trade, which provides the following. First, enhance the division of labor and cooperation among industrial chains, in a bid to promote industrial integration and innovation. Second, maintain strength in traditional industries, and push forward the development of advanced manufacturing and emerging industries. The development of producer services should be emphasized, with coastal areas continuing to play a leading role. Third, promote the development of processing trade industry cluster and the establishment of processing trade industry transfer cooperation mechanisms. Key inland areas should be prepared to take over industrial transfers from coastal areas, and differentiated supporting policies should be designed. Fourth, cultivate overseas cooperation in processing trade, and improve international cooperation mechanisms. Industrial cooperation with countries along the Belt and Road should be deepened, and so should be the cooperation with African states. Fifth, deepen the reform in administrative examination and approval system by adopting new and better regulatory approaches, accelerate the domestic sales facilitation, and speed up the optimization of special customs areas.



MOF issued a circular on the use of official card for the financial settlement of research programs delegated by the central finance authority

On January 20, MOF issued a circular on the use of official card for the financial settlement of research programs delegated by the central finance authority, which provides the following. First, the official card should be used to settle the expenses of research programs which belong to the *Mandatory Official Card Settlement Catalog for Central Budgetary Agencies*, and related small amount of material costs and testing laboratory fees. Second, relevant agencies should standardize the payment procedure of official card, and strictly follow the required procedures. Third, relevant agencies should delegate agent banks to exam the reimbursement of official card. Fourth, except for official expenses, the agencies should not be liable for personal spending incurred on the official

card and related obligations entailed on the personal spending. Fifth, during the financial acceptance inspection for the research projects, the use of official card for financial settlement is one of the acceptance requirements.



MOF issued a circular on the incentives for the development of new energy vehicle charging facilities and broader use of new energy vehicles during the 13th Five-Year Plan period

On January 20, MOF issued a circular on the incentives for the development of new energy vehicle charging facilities and broader use of new energy vehicles during the 13th Five-Year Plan period. First, provinces (autonomous regions and municipalities) with broad market, rational policies and fair market access for new energy vehicles are eligible for the charging facility operation subsidies provided by the central finance authority. Second, the subsidies are lump-sum funds allocated from the central finance to local authorities in provinces (autonomous regions and municipalities), which are to make coordinated arrangement of the development of charging facilities and relevant operation. Third, the amount of subsidies is mainly determined by the number of new energy vehicles put into use in the provinces (autonomous regions and municipalities). Fourth, the subsidies are earmarked for the construction, operation and upgrading of charging facilities and related field monitoring system, and should not be used for supplementing local finance or supporting the purchase and operation of new energy vehicles.



MOF issued the Piloting Management Measures for the Agency Official Card

On January 21, MOF issued the *Piloting Management Measures for the Agency Official Card*, which provides the following. First, the budget agency is to choose a bank within the scope of designated banks to be the issuing bank for the agency official card. Second, the official cardholders should be formal and permanent staff in the budget agency. Third, the credit ceiling of the official card is to be applied by the budget agency and examined by the issuing bank. Fourth, the budget agency is liable for the repayment in the official card. Fifth, the official card should only be used for official purposes. Personal expenses, installment, cashing or cash dividend return should not be incurred on the agency financial card. Sixth, both the agency and personal official card can be used to settle the business item within the mandatory settlement catalog. Seventh, the reimbursement of the agency official card is to go through the supporting system of the delegated bank, and is subject to dynamic monitoring of budget management.



MOF published a circular on adjusting the relevant matters on verifying and approving the eligibility of public-interest-purpose donations for pre-tax deduction

On January 22, MOF published the circular on adjusting the relevant matters on verifying and

approving the eligibility of public-interest-purpose donations for pre-tax deduction. (1) The requirement for social organizations to submit application and relevant paperwork for pre-tax deduction of such donations will be scrapped. (2) MOF, SAT and the Ministry of Civil Affairs (MOCA) will jointly publish announcements to confirm the eligibility of qualified public-interest social organizations for pre-tax deduction. (3) The inspection and oversight will be intensified over the public-interest social organizations, so will be the penalty if they are found violating relevant rules and regulations. (4) Public finance, tax and civil affairs authorities at all levels of government shall strengthen collaboration and communication and set up a cross-agency coordination mechanism.



MOF published a circular on collecting the special funds for the structural adjustment of industrial enterprises

On January 22, MOF published a circular on collecting the special funds for the structural adjustment of industrial enterprises. (1) The special funds will be collected by the Inspector's Office of MOF in provinces and cities. (2) The special funds will be collected on a monthly basis and paid to the treasury. (3) The special funds will be transferred in full to the treasury, placed under the general public budget management, and catalogued as No. 103029999 "other special revenue" in the accounts of government revenue and expenditure. (4) No locality, unit and individual shall cut, waiver or delay the collection in contravention of this circular. (5) Those obliged to pay the special funds shall pay in time in accordance with the provisions of this circular.



MOF published a circular on the business tax policy for employeebased domestic service providers

On January 26, MOF published a circular on the business tax policy for employee-based domestic service providers. The waiver of business tax under the Circular of MOF and SAT on the Waiver of Business_Tax for Employee-based Domestic Service Providers will remain valid from October 1, 2014 to December 31, 2018. The business taxes that should have been waivered but still paid are allowed to be deducted from the tax payers' future payable business taxes, or refunded to the tax payers if these taxes are not yet fully deducted when the reform that replaces business tax with VAT is implemented.



The executive meeting of the State Council identified the measures of promoting financial services to upgrade the industrial sector

On January 28, the executive meeting of the State Council identified the measures of promoting financial services to upgrade the industrial sector. (1) Steering financial institutions to scale up credit supply to high-tech firms and manufacturers of key equipments and parts so as to nurture new engine of growth. (2) Encouraging merger and acquisition financed by funds raised through M&A loans and issuance of preferred shares and convertible bonds so as to retrofit the conventional engine

of growth. (3) Cutting and withholding loans to the firms that are perennially loss-making, insolvent, failing the environmental and production safety standards, and with outdated production capacity. (4) Expanding financing channels, promoting direct financing through stock and bond issuance, and developing accounts receivable financing. (5) Continuing to crack down on the irregularities of financial service charging by rescinding or cutting unreasonable charges.



MOF issued a circular on adjusting the 19th government procurement list for energy saving products

On February 1, MOF issued a circular on adjusting the 19th government procurement list for energy saving products, which provides the following. First, computer equipment and input and output devices on the products list are mandatory items for government procurement. Other products on the list are priority items for government procurement. Second, products that are not included on the list are not mandatory or priority energy saving products for government procurement. Third, when the listed mandatory procurement products are involved in an already negotiated centralized government procurement contract, the centralized procurement agencies should renegotiate the contract with the suppliers based on the adjusted list. Fourth, when a needed product is a mandatory government procurement item, but the current list offers no corresponding detailed classification, or the listed products can not meet the working requirements, then the product can be purchased beyond the list.



MOF issued a circular on adjusting the 17th government procurement list for environmental labeling goods

On February 1, MOF issued a circular on adjusting the 17th government procurement list for environmental labeling goods, which provides the following. First, the listed products are priority items for government procurement. Second, products that are not included on the list do not belong to priority environmental labeling products for government procurement. Third, government procurement of engineering services and engineering-related products should comply with the priority list for environmental labeling goods. Fourth, the list is applicable for government procurement activities undertaken after the publication of this circular.



MOF issued the Management Measures for the Earmarked Central Transfer Payments to Local Governments

On February 2, MOF issued the *Management Measures for the Earmarked Central Transfer Payments to Local Governments*, which provides the following. First, the establishment of earmarked transfer payments should comply with clear requirements of laws and administrative regulations, performance targets, implementation time lines, etc.. Second, the application for establishing such funds should be submitted to MOF by relevant central authorities or provincial governments. Third, the earmarked funds are automatically terminated after expiration. Fourth, after approval