Hong Kong Institute of
Certified Public Accountants
香港會計師公會

Meeting notes

Guangdong Provincial Tax Service, State Taxation Administration

and

The Hong Kong Institute of Certified Public Accountants

2018

Foreword

It is a great honor for the Hong Kong Institute of Certified Public Accountants ("Institute" or "HKICPA") to hold the meeting with the Guangdong Provincial Tax Service, State Taxation Administration ("GDSTA") on 13 December 2018 in Guangzhou. The meeting aims to discuss various taxation topics and to exchange opinions based on the discussion.

The following is a translation of the meeting notes prepared, in Chinese, by the Institute. Please note that the meeting notes merely represent the views of GDSTA officials who attended the meetings and are not intended to be legally-binding or a definitive interpretation. Professional advice should be sought before applying the content of these notes to your particular situation.

HKICPA wishes to thank the delegates from Grant Thornton for taking the meeting notes.

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1. Combination of local and state taxation bureaus
2. Improve business environment
3. Planning on the Greater Bay Area
4. Golden Tax Project Phase III

Attendees:

GDSTA

Liu Li	Director, Department of International Tax Management
Zhuang Bo	Principal Staff Member, Department of International Tax Management
Zhu Guoqiang	Principal Staff Member, Department of International Tax Management
Chen Liexin	Deputy Principal Staff Member, Department of International Tax Management
Huang Tingting	Principal Staff Member, Department of Commodity and Service Tax
Huang Jingyi	Staff Member, Corporate Income Tax Department
Liang Bin	Principal Staff Member, Individual Income Tax Department
Tian Liangchang	Principal Staff Member, Property and Behavior Tax Department
Luo Xuan	Deputy Principal Staff Member, Social Insurance Department
Zhu Xun	Staff Member, Collection, Administration and IT Development Department
Zhong Jing	Principal Staff Member, Human Resources Department

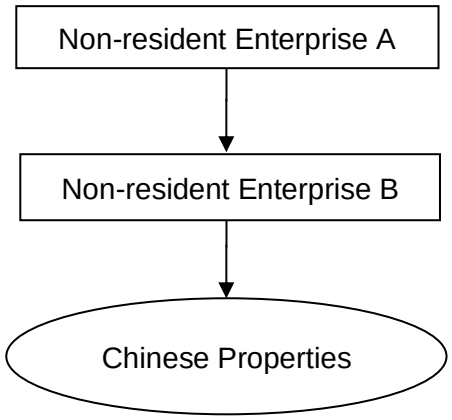
HKICPA

William Chan	Convenor, China Taxation Subcommittee and Member, Taxation Faculty Executive Committee
KK So	Chairman, Taxation Faculty Executive Committee and Member, China Taxation Subcommittee
Sarah Chan	Member, Taxation Faculty Executive Committee and China Taxation Subcommittee
Lorraine Cheung	Member, China Taxation Subcommittee
Cecilia Lee	Member, China Taxation Subcommittee
George Lam	Member, Taxation Faculty Executive Committee and China Taxation Subcommittee
Travis Lee	Member, China Taxation Subcommittee
Leo Li	Member, China Taxation Subcommittee
Sunny Hua	Director, Grant Thornton China (Shenzhen)
Oscar Chow	Senior Manager, Tax Advisory Services, Mazars
Eric Chiang	Deputy Director, Advocacy and Practice Development
Wallace Wong	Associate Director, Advocacy and Practice Development

Agenda items

A. Corporate Income Tax ("CIT")

1. Equity transfer



Non-resident Enterprise A directly transfers the equity interest in another non-resident Enterprise B in which Enterprise B holds a real estate in China directly. Through receiving rent in China, Enterprise B would be deemed to have a permanent establishment in China. Tax bureaus expressed different views on the tax rate, should the applicable CIT rate be 10% or 25% for the above scenario?

GDSTA: It does not mention whether the transfer is a direct transfer or indirect transfer as depicted in PN7. If the transfer is in relation to a premises or assets in China, the tax authority would likely consider the transaction as transfer of premises and apply the 25% tax rate in calculating the payable amount. In practice, different tax bureaus may interpret the “de facto relationship” differently. There is no clear standard for “de facto relationship” for the time being, but according to regulation, “de facto relationship” shall mean local ownership in China in equity and creditor's rights; or local assets are managed by a local office. It is important to consider how close the relationship between transferred asset and the office or premises is in real case. In this case, given that the office or premises has paid CIT for its rental income before, the transfer of relevant properties may probably be considered as a transfer of office or premises and 25% tax rate will apply.

2. Assignment of equities or assets

According to Caishui [2014] No. 109 (“Circular 109”), special tax treatment on assignment of equities or assets applies if the requirement of equities or the original substantial business activities of the transferred equity or assets has not been changed within 12 consecutive months after the transfer.

According to item 7 of STA Public Notice [2015] No. 40 ("PN40"), in the event of change of manufacturing or business activities, nature of company, asset or equity

structure etc. of the transferor or the transferee within 12 consecutive months from completion of the transfer of equity or assets, which render the transfer of equity or assets to be non-compliant with the special tax treatment criteria, the party triggers the change shall report this change to its tax authorities in charge within 30 days from occurrence of the change, and notify the other party in writing simultaneously. The other party shall report to its tax authorities in charge of the relevant change within 30 days from receipt of notification.

a) For the above requirement of "substantive business activities" and " equity structure", is it implied that assigned equities cannot be transferred within 12 months?

GDSTA: The equities cannot be transferred within 12 months.

b) If there is a capital injection from the third party within 12 months (original shareholder does not transfer the equities), would it be treated as a change in "equity structure"?

GDSTA: A capital injection is a change in the equity structure. Therefore, it does not satisfy the requirement of special restructuring. Hence, special restructuring shall not apply.

c) A restructured enterprise has disposed part of the investment business within 12 consecutive months after the completion of transfer of equity or assets, but there was no change in the nature of main business, would it be treated as a change in "production and operations"?

GDSTA: We will consider it on a case-by-case basis. According to PN40, there should not be any change in the production and operations, and also all other conditions. GDSTA will consider whether there is a change in the original condition based on the totality of facts.

3. Caishui [2018] No. 55 ("Circular 55")

According to Circular 55, where a limited partnership venture capital enterprise (hereinafter referred to as the "partnership VC enterprise") invests directly, by way of equity investment, in a start-up technology enterprise for two years, the legal person partner and the individual partner may use 70% of the investment amount in the start-up technology company to offset against its share of the proceeds from start-up technology company; the unutilized balance may be carried forward to subsequent tax year(s) for offsetting.

- Question 1: If a partnership VC enterprise A invested in another partnership VC enterprise B, and B invested in a start-up technology enterprise. Whether this offset policy applicable for A's legal person partners and individual partners?

GDSTA: This offset policy is not applicable to A's legal person partners and individual partners. There is strict requirement that partnership VC enterprise has to direct invest in the start-up technology enterprise in order to apply for the offset policy in Circular 55.

- Question 2: If same partner invested in several partnership VC enterprises, can mixed deduction be applied based on different investment projects? According to item 3 in STA Public Notice [2015] No. 81 ("PN81"), the legal person partners might go for mixed deduction, is it correct?

GDSTA: Deductions based on mixed projects are possible. According to item 1 of PN43 in 2018, "Where a legal person partner invests in several limited partnership VC enterprises which satisfy the criteria, the investment amount which can be used for offset and the distributable taxable income amount may be aggregated. Any shortfall from the current year's offset may be carried forward to subsequent tax years for offsetting; where there is a balance from the current year's offset, CIT shall be computed and settled pursuant to the provisions of the CIT Law."

4. Circular 59 – Can merger of entities under the same control apply special tax treatment?

Is special tax treatment applicable for the merger between Chinese parent company and its subsidiary company (vertical) or the merger of two fellow subsidiary companies (under the same parent company)? Is there any requirement on the equity ratio on "common control"?

GDSTA: Both parent company, subsidiary and two fellow subsidiary companies may be able to apply special restructuring.

Item 3 of Article 21in Public Notice of the STA [2010] No. 4 ("PN4") shed the light on how “common control” should be interpreted. "Under the common control stipulated in item 4 of Article 6 of the Notice shall mean that the enterprises participating in the merger are ultimately controlled by the same party or parties before and after the merger, and the control is non-temporary. The same parties which have ultimate control over the enterprises participating in the merger before and after the merger shall mean the group of investors which have control over decision-making over the financial and business policies of the enterprises participating in the merger pursuant to the provisions of the contract or agreement. Where the parties participating in the merger are controlled by the ultimate controlling party for 12 months or more before the merger of the enterprise, the post-merger entity shall also be controlled by the ultimate controlling party for 12 consecutive months."

In PN4, it can be controlled by one party or several parties. Also, there is requirement for the controlling entity but none for the ratio.

5. STA Public Notice [2018] No. 28 ("PN28")

According to PN28, an enterprise should but failed to obtain an invoice or external proof in a previous year and the corresponding expenditure was not pre-tax deducted in the said year, if the enterprise obtains in a subsequent year a pre-tax deduction proof which complies with the provisions, such expenditure may be allowed for pre-tax deduction retrospectively in the year in which the expenditure is incurred; however the period of retrospective deduction may not exceed five years.

How to implement in practice? Should the companies revise the relevant annual returns (maybe 5 years) and submit those returns? Is there any special form to fill in by the company or should the company conduct a calculation table by themselves?

GDSTA: If there is a non-obtained invoice or external proof in a previous year which cannot apply tax deduction, this amount can be shifted into later years, however the period may not exceed five years.

There is no special form for correcting the current return form by adjusting the previous year's earnings and losses.

6. STA Public Notice [2015] No. 7 ("PN7")

According to PN7, income from indirect transfer of immovable/equity, which is subject to CIT pursuant to the provisions of this Notice, the organisation or individual that directly bears the payment obligation towards the transferor of equity pursuant to the relevant provisions of the law or the contractual agreement shall be the withholding agent. However, before PN7 was released, there was no regulation (including CIT law and Guoshuihan [2009] No. 698 (“Circular 698”)) to enforce the buyer from indirect transfer of equity to have a withholding obligation. When GDSTA handles indirect transfer of equity before PN7 was released, would it be treated as if the buyer bears withholding obligation?

GDSTA: Whether the buyer bears withholding obligation is not regulated by PN7. PN7 is only a normative document but not legal document and there is no right for it to control who is the withholding agent. GDSTA may cite item 37 of CIT Law where the payer shall act as the withholding agent.

The function of PN7 is to explain the problem of recharacterisation, whether which situation asset transfer is not having irrational business purpose.

Before PN7 was released, items 5 and 6 of Circular 698 had clarified when recharacterisation can be applied. Once recharacterisation has applied, it would become an equity asset in China. Therefore, PN7 does not set the buyer as withholding agent.

Follow-up question from HKICPA: Before the release of Circular 698, the original seller has no tax clearance on the indirect transferred China assets. If now the new seller indirect transfers the China assets, whether the buyer should calculate the tax amount according to the acquired value or the original cost of relevant transferred assets?

GDSTA: The current documents have no clear explanation on the tax base of new user when last user has no tax clearance. In actual cases, tax authorities may consider the situation of having no tax clearance as a sale of foreign assets, thus new buyer is not able to calculate tax base on the original purchase price. GDSTA is now discussing with STA to see whether there is any other ways to deal with this question.

B. Withholding Income Tax

1. Determination of “Beneficial Owner”

a. According to item 3 of STA Public Notice [2018] No. 9 ("PN9"), where a resident of the treaty counterparty who needs to enjoy the tax treaty benefits (hereinafter referred to as the "applicant") receives dividend income in China, if the applicant does not satisfy the criteria for "beneficial owner" but the person who holds 100% of the applicant's shares directly or indirectly satisfies the criteria for "beneficial owner" and the circumstances falls under either of the following scenarios, the applicant shall be deemed as a "beneficial owner".

Also according to item 4 of PN9 (safe-harbour rule), when the following applicants receive dividend income from China, the applicants may be determined as a "beneficial owner":

(1) the government of the treaty counterparty;
(2) a resident of the treaty counterparty which is a listed company in the treaty counterparty;
(3) an individual who is a resident of the treaty counterparty; and
(4) 100% of the applicant's shares are held by one or several persons set out in item (1) to item (3), and the multi-tier holders holding the shares indirectly are China residents or residents of the treaty counterparty.

In practice, when the applicant does not satisfy the criteria for "beneficial owner", but the applicant owns more than one non-listed company of a resident of the treaty counterparty directly or indirectly, if these non-listed companies meet the conditions of “beneficiary owner”, would the Tax Bureau extend the idea of "more than one beneficial owner" from safe-harbour rule to item 3, and consider all beneficial owners, to accept the applicant as a "beneficial owner"?

On the other hand, when some countries quote the regulation of "limitation on benefits" under the tax treaties, allowing the applicants to enjoy full or partial dividend tax treaty benefits even though they are not 100% jointly owned by the

"beneficial owners" of residents of the treaty counterparty. For example, the U.S. and some European Union countries adapted derivative benefits test in tax treaties, if at least 95% of the applicant's shareholders are directly or indirectly held by 7 or less equal beneficiaries, they may still enjoy tax treaty benefits. Also, some countries allow sharing the dividends of applicant based on the controlling proportion of the ultimate beneficial owners to the applicant in order to calculate the part that enjoys tax treaty benefit. Although items 3 and 4 of PN9 have mentioned the requirement of "100% holds controlling stake directly or indirectly", would GDSTA consider applying dividend tax treaty benefits to applicants who do not meet the requirement of beneficial owners themselves, but most of the shareholders (for example, more than 95%) are the beneficial owners under above conditions?

GDSTA: When PN9 was released, STA has relaxed the safe-harbour rules and narrowed the standard in item 3. We had no current plan to go beyond the STA's limitation. When implementing item 3, it must be the same person according to the meaning of the document and it cannot be broadened. The definitions of beneficial owner in China and the international tax community are not exactly the same. The latter combines the concepts of benefit limitation and purpose testing. When designing item 3, China has considered interest limitation, but it has not adopted the full standard of US interest restriction. There is no current plan to go beyond the STA's limitation.

b. Hong Kong Company B is the parent company of Chinese Company A, and Company B is held by Singapore listed Company C. The above controlling relationship is 100%. Suppose Company B has no commercial substance, but Company B and Company C obtained the Hong Kong and Singapore tax resident identity cards respectively. Can the Tax Bureau take into account Company C's listed company identity directly and determine Company B's beneficial owner status?

GDSTA: We cannot determine the beneficial owner status directly, but the Singapore listed company would be considered as a factor.

C. Individual Income Tax ("IIT")/ Social Security

1. Resident identity

New IIT Law has given a new definition to tax residents. With the development of the Greater Bay Area ("GBA"), mainland and Hong Kong individuals are travelling more frequently between the two places (including working, holding properties, economic and family relations are closely linked in the two places, mainland residents immigrating to Hong Kong to become temporary or permanent Hong Kong resident etc.), which may lead to a problem that individuals may become tax residents in both the Mainland and Hong Kong.

- Question 1: Would GDSTA establish a set of mechanism to help these individuals determining the identity of tax residents under the framework of Chinese/Hong Kong tax arrangement. Please explain the views of two tax authorities by analyzing some examples.

  GDSTA: We will collect the data and suggestions from different industries, and report to STA.

- Question 2: Under the situation of "being tax residents in both two places at the same time", is there any simple mechanism for Hong Kong and China tax authorities to discuss the double taxation problems? If formal consultation procedures were proposed in every single case, it would be difficult for normal taxpayers to bear tax compliance issues due to the costs and uncertainties.

  GDSTA: This kind of problems should not bring a significant effect to Hong Kong.

2. New IIT rates

   New IIT rate has been implemented since 1/10/2018, for wages and salaries, including severance payments and equity incentives income. If the income is obtained after 1/10/2018, would it be acceptable to use the new tax rates? Some tax bureaus require enterprises to use the old tax rates as this income was related to the past months/years activities. Seems that it is not aligning with the cash basis principle.

   GDSTA: For equity incentives income obtained after 1/10/2018, STA has clearly mentioned new tax rates should be adopted, but there is no clear instruction on whether the new tax rates would be applicable to severance payments.

3. Collection of social security

   Starting from 1/1/2019, social security is collected by tax authorities.

- Question 1: Is there any work plan for the collection and management of social security in Guangzhou? Will it require companies to remedy for the underpayment over the past year's social security? If the companies want to make remedy and rectify the non-compliance in previous years proactively, would GDSTA accept and trace back to a few less retrospective years?

  GDSTA: Social security of Guangdong Province was collected by GDSTA. GDSTA would not ask enterprise to trace back the historical payments. However, if there is any complaints from employees, GDSTA would require the enterprises to pay the relevant social security according to the regulations. Enterprises can proactively remedy and rectify the non-compliance in previous years and there is no limitation on the retrospective period concerned.

- Question 2: Does the system of Golden Tax Project Phase III cross-check the data of wages and salary and identify if there is any IIT/CIT deduction or social security problems?

GDSTA: The system of Golden Tax Project Phase III can cross-check the data of wages and salary, but currently no cross-checking has been carried out.

D. Transfer Pricing and Information Exchange

1. Information exchange

a. Foreign tax authorities' passive attitude

Although China and other countries/jurisdictions have entered a numbers of agreements for automatic exchange of tax information (for example the exchanges according to the Multilateral Convention on Mutual Administrative Assistance in Tax Matters (MCAA) and Country-by-Country reporting ("CbCR") exchange mechanism), some countries/jurisdictions (such as Hong Kong) are still taking a passive attitude on information exchange (i.e. it would only exchange the information when it is under the mandatory automatic information exchange mechanism or when other tax authorities request the information according to tax treaties or other special arrangements).

It is still difficult for the Chinese tax authorities to investigate tax evasions engaged by some international companies (example: Hong Kong company has constituted a permanent establishment in China but it may not be detected, which lead to problems such as deduction of extra costs among domestic related parties and the profit sourced in China cannot be taxed by the Hong Kong Tax Authority. At the same time, as the company does not meet the requirement for preparing the CbCR, STA cannot obtain information on the profit of permanent establishments under the arrangement of mandatory information exchange). In response to the foreign tax authorities with passive attitude, will GDSTA require them to provide information automatically (for example, requiring tax authorities to provide the information automatically on all foreign income derived by taxpayers that are not taxed)?

2. Monitoring cross-border profit level

Recently, STA emphasized that the general principle of China's anti-tax avoidance work in the near future is to seek improvement while ensuring stability, and focus on cross-border profit level monitoring. The STA also disclosed the work plan for future anti-tax avoidance work at the relevant tax policy meeting:, including to establish a "globally-integrated" profit level monitoring system for multinational enterprises with a unified statistics standard and risk evaluation system; to conduct deep scanning and risk testing on single enterprises from the global, national and provincial levels to understand the overall operation profile of multinational groups; to rank them by risk level and compliance willingness; to develop transfer pricing risk and compliance

files for each enterprise; and to carry out risk assessment from the dimensions of nationality, industry, fiscal year, transaction type and taxpayer so as to achieve a comprehensive upgrade of the transfer pricing management level of multinational enterprises. With the above requirements, we hope to have a deeper understanding on how to monitor cross-border profit level locally in the future. In terms of information collection, what should taxpayers do? In addition, what aspects and risk indicators will the tax authorities assess the tax compliance of taxpayers?

GDSTA: Information is being collected for contemporaneous documentation and related party declarations.

3. Contemporaneous documentation

Since STA Public Notice [2016] No. 42 ("PN42") was released, companies have submitted contemporaneous information documents (including master files, local files, special issue files) and related declarations (22 related declaration forms) for two years (including 2016 and 2017). After receiving the above documents and declaration forms, what statistical and analytical works GDSTA has carried out, or are there any rating and review results on the quality of the declaration and contemporaneous information? What are the requirements, suggestions or feedbacks for taxpayers to prepare for the above-mentioned contemporaneous documents and related declarations in the future? If the quality of the declaration and preparation do not meet the expected standards, what further actions or warnings would STA do?

GDSTA: The guidance of related party declarations is under preparation and it will be released early next year.

E. Value-added Tax (“VAT”)

1. VAT on fund management products

a. How to understand capital-guaranteed in fund management products?

According to Caishui [2016] No. 140 (“Circular 140”), capital-guaranteed refers to "investment returns undertaken in the contract for principal that is fully recoverable". In practice, is there a need for determining capital-guaranteed return based on the business substance?

i. For the business such as loans, credit assets, and sales and leaseback, is it necessary to determine the conditions of capital-guaranteed according to its business substance or to pay tax directly based on the loan services?

GDSTA: Obviously, it is related to interest income. Technically, whether it is subject to tax is not determined according to its business substance.

Capital-guaranteed is a legal concept, it is not determined based on the ability to repay principal or accounting treatment or actual result.

ii. For investment without clear commitment as capital-guaranteed, but with some credit enhancement measures (such as agreement to repurchase or redeem at a certain time with a fixed price) or terms regarding the compensation on the differences in return (for example, when the income of preferred shareholders is less as agreed, the other shareholders have to compensate the preferred shareholders) in order to ensure the product is capital-guaranteed, is it required to determine the capital-guaranteed return based on the business substance?

GDSTA: Capital-guaranteed is based on the legal format, i.e. contractual agreement.

Credit enhancement measures are adopted in order to meet the condition of capital-guaranteed. It is mainly based on the obligation of the agreement.

F. Property Tax and Act Tax

1. PN57 & PN17

PN57: "Where two or more enterprises are merged into an enterprise pursuant to the provisions of the laws or contractual agreement, and the investment entity of the original enterprises subsist, the transfer of real estate from the original enterprises to the merged enterprise shall not be subject to land appreciation tax temporarily."

PN17: "Where two or more companies are merged into one pursuant to the provisions of laws or a contractual agreement, and the former investors survive, deed tax will be exempted for the land and building title of the former parties succeeded by the merged company."

- Question 1: Is there any specific requirement in the form of "merger" for these two restructuring tax incentives? Are they applicable to the merger between Chinese parent company and subsidiary (vertical) or two associate companies (under the same parent company)? Is there any specific shareholding requirement?

  The merger is regulated under the company law.

GDSTA: If merger is carried out according to the company law, it would be consistent with the merger mentioned in the Notices. The treatments of different situations have been stated clearly in the Notices.

- Question 2: According to PN57, "the aforesaid land appreciation tax policies relating to transformation and restructuring shall not apply when the transferor or the transferee of the real estate is a real estate developer". However, there is no similar restriction on real estate developers in PN17.

- Base on Article 5 of PN57, can the situations below apply for the land VAT preferential policies?

a. A company that has been engaged in long-term investment in real estate for rent collection, but not in real estate development.

GDSTA: According to the principles strictly, real estate enterprises engaged in properties business or having real estate development qualification cannot enjoy the tax preferential policies.

b. If Company A is originally a real estate development company, but after the completion of a real estate development project, Company A has transformed into a real estate leasing and management company, using part of the property for long-term investment and rental. Now, Company A plans to carry out restructuring and transfer some of the real estates to the restructured company.

GDSTA: Real estate development would need to follow the principles strictly based on the nature of business. If it was a real estate development company originally and then becomes a rental company, the preferential tax policies are not applicable.

G. Others

1. Combination of local and state taxation bureaus

   Can GDSTA introduce the current structure and division of labor of the departments?

GDSTA: GDSTA will release the information about the current structure and division of labor of the departments on the Internet, please find the relevant information on the Internet.

2. Improve business environment
   Can GDSTA introduce the measures implemented in 2018 and work plan for 2019?

GDSTA: In 2018, GDSTA's work measures to improve the business environment mainly include: 1. Promote rapid development and strengthen innovation service. Established Guangdong Provincial Electronic Taxation Bureau, monitoring System on Special Payment Letter for VAT on Imports, full chain prevent and controlling

system on VAT invoice, further promotes the reform of tax collection and management system of state and local tax authorities. Launched 10 measures for the development of foreign trade services, such as “Free Trade Tax Easy Pass” and other innovative measures; reducing the complexity of procedures in same city or province. Establish 286 24-hour self-service tax service halls; deepen the interaction between banks and tax authorities and widen the scope of parties benefiting from the policies.

2. Create a pilot innovation model in order to overcome the difficulties. Guangzhou contributed “7 firsts in the country” to the tax system: (i) implementing the whole process of the tax refund on the Internet; (ii) launching “cloud tax payment”, which can easily be completed through Alipay, WeChat APP scanning code, resulting in instant tax payments; (iii), launching the online platform for settling Vehicle Purchase Tax and Vehicle License; (iv) launching the online WeChat number for enterprise, providing information for taxpayers concerned with the tax enterprise number including settling tax payment, providing tax related information, booking tax services, getting help from tax experts, and other 10 categories of 43 services;(v) handling second-hand housing transactions with the registration number; (vi) launching the combined invoice for paying different types of VAT to shorten the time for issuance of VAT invoice; (vii) launching the first "Single Touch Payroll" for export tax refund, which has shortened the time of tax refund by half.

3. Improving the service quality and ensure the speed of the services. The first batch of list of “One Visit” was officially released and implemented since 1 April 2018. The “package-style” service for new enterprises covering 10 tax-related matters was launched; simplifying the procedures of tax handling, promoting the work in "one single form", reducing complexity in collecting taxpayer information; promoting bank and tax authority platforms, assisting to solve the problems of financing difficulties and high financing expenses; optimizing the Guangdong Electronic Taxation Bureau, expanding the scope of "full online operation" to promote the handling taxation services remotely.

4. Editing “Implementation Plan for the Pilot Work of the Taxation and Business Environment of the Guangdong Provincial Taxation Bureau of the STA (2018-2020)” has promoted most of the measures. In the pilot year 2018, 30 measures were completed in the pilot areas, and more than 35% of the basic work measures were completed in the provinces; in the first half of 2019, 44 measures were completed in the pilot areas, and the overall completion rate in the provinces will be more than 55%; by the end of 2019, 65 pilot measures will be completed, and the overall completion rate of the provinces will need to exceed 80%; in the improvement year 2020, 100% of the work tasks in the provinces will be put in place.

3. Planning on the GBA

Can GDSTA introduce the tax policy and work plan in GBA?

GDSTA: The work is currently handled by the International Taxation Administration of the Provincial Taxation Bureau. It coordinates the relevant departments to implement tax policies of GBA; sets up a special tax service team, and gives constructive opinions and suggestions from a professional level to the higher authorities.

4. Golden Tax Project Phase III

Many taxpayers report that, under Golden Tax Project Phase III system, taxpayers are required to explain to the tax authorities or make a tax adjustment when there is variance between the taxpayer's tax rate and the indicator in the system. Otherwise, the taxpayer would be classified as abnormal or their VAT invoice system may even be locked. Some taxpayers think that the variance has commercial reasons and they do not intend to pay less tax although the tax rate is different from the indicators set by the Golden Tax Project Phase III system. However, many local tax authorities may not accept the taxpayers' explanations, and require them to adjust the tax even after the tax is paid. After the adjustment, the status of the enterprise can be changed back to normal. In this regard, taxpayers have a bad perception on the tax business environment. In practice, the tax authorities only verbally require taxpayers to adjust their tax. They are informed as abnormal without a written notice, and the tax authorities may not explain which tax law has been violated.

Does GDSTA have any mechanism to deal with taxpayers' explanations or complaints on this problem? How to protect the taxpayer's rights and interests while allowing the tax authorities to act on a legal and reasonable basis?

GDSTA: The system of Golden Tax Project Phase III includes the function of collection & administration and risk management. Taxpayers reflect quite a number of abnormal indicators and the accounts are under system supervision. It belongs to the risk indicator monitoring the system, and should be the part of the risk management protocol within the tax bureaus. The risk management functions of the system of Golden Tax Project Phase III including pre-existing prompts, monitoring during the event, and internal management after the event. Taxpayers can report problems through the 12366 service hotline and website channels or direct contact the tax bureaus.