

The Latest Insight

Shanghai Incentives to attract Foreign Investments

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Recently, in conjunction with changes to various taxation and customs regulations the Shanghai authorities have also undertaken measures to further attract foreign investment and trade.

In early 2009 the Shanghai authorities opened an online network for overseas investors to track their application for establishing a new venture or making modifications to existing businesses. This is the first step by the government to improve public services to attract foreign investment during the economic crisis and beyond. The website aims to increase investors' awareness of each step of the application procedure, and to improve efficiency of the approval procedures within the government departments. Foreign investors previously used to face difficulties with multiple variants of documents and complicated document preparation and approval processes. This often led to long delays and unexpected results.

The improvement of public services is one of the steps taken by the city government to seize any opportunities from the current economic challenge. Further improvements are planned for later 2009. These changes will allow further access into industries such as, logistics, commerce and trade, information services, research and development and other high value-added services. It is hoped these measures will stimulate merger and investment activity in the above sectors. Foreign investors currently working with Chinese partners or in a joint venture can take this opportunity to acquire their Chinese partner's stake and expand their development in the local China market once the detail related policies are announced.

In addition to the above stimulus, there are several economic zones located in suburban parts of Shanghai and these are still providing incentives to enterprises that choose to register there. Foreign investors can take this opportunity to check and update their business strategy and take advantage of such incentives. Such measures as, decoration or fit-out allowances along with various rebates are being offered. Outlined below are some further examples of other possible allowances that are applicable from time to time, though it should be noted that these are being constantly updated.

In Qingpu, high and new technology enterprises can be refunded with land usage fee and exempted from utility fees during the construction period for any new buildings being erected.

The high-tech intangible assets that are to be treated as part of the capital injection of a company are allowed to be valued as high as 35% of the capital when compared to companies establishing outside of Qingpu. The intangible assets contribution as part of the capital injection is normally limited to no higher than 20%.

In Jinshan, an export company and/or a high-tech enterprise can enjoy the same low-price utility fees as a state-owned enterprise. In addition, these types of enterprise may establish a

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Yes

No

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loan with a smoother process through a green channel, after approval confirmation from the People's Bank of China.

Besides the above mentioned items companies may be eligible for tax refunds or rebates in the various economic zones. This is based on the collection and ownership of the various taxes and the below table indicates who collects and owns the various tax amounts. Local government then decides how these funds are utilized.

Chart I

National/Local Government	Turnover Tax		Corporate Income Tax
	Value-added Tax	Business Tax	
National Government	75%	0%	60%
Local Government	25%	100%	40%

Shanghai is composed of ten urban districts and eight suburban districts. Each of them has sub-level government, and these various levels of government take part in the tax re-distribution.

Below is a chart to reflect the tax incentives provided in various suburban districts of Shanghai.

Chart II

Suburban Districts in Shanghai	Possible Tax Refund Rate (% of that paid)		
	Value-added Tax	Business Tax	Corporate Income Tax
Chongming Island	8%-10%	45%-50%	18%
Jinshan District and Fengxian District	6%-8%	30%-35%	16%-18%
Minhang District, Jiading District, Qingpu District, Nanhui District, and Songjiang District	4%-6%	15%-25%	10%-16%

The tax refund rate is flexible based on the investment dimensions of the registered capital and business nature of the company that is being established etc. Foreign investors are able to take advantage from all these incentives when investing in a zone. The same incentives are not usually available for investment outside of these special zones.

Therefore, despite the various changes which are trying to standardise the various regulations it can be seen from the above examples that there are possibilities for companies to take advantage of various rebates and allowances that are still being used to attract investment into China. It is strongly recommended that companies review their current situation and what is currently on offer, to see if there is any possibility to take advantage of these items, which help to improve either their cost position or tax positions.

In light of the various changes taking place, companies should also consider seeking professional advice, which could assist in reviewing and comparing the possibilities that may be open to them, and of course to help negotiate on these.

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