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Tax on Consumption Expenditure Targets Business Expenses

The Ministry of Finance and the State Administration of Taxation (SAT) announced on Thursday that the government would levy tax on consumption expenditure of private companies. Private business owners that spend company money on items irrelevant to their business, such as cars or houses, must pay individual income tax on these expenses, according to the notice.

Prior to the announcement, similar expenditures had been booked as operational costs of companies. In this means, private businessmen evade not only the individual income tax but the corporate tax as well. The SAT also said, from this year on, it would focus on supervising the tax levying of high-income individuals, such as those hired by private and foreign-invested firms, or those working in the financial and telecom sectors. Sports stars are also included.

They have to report in detail their income and expenses. In the past, expenses for meals and trips can be exempted from the levying tax if they can prove it to be related to business operation. Some people had been using it as a channel to evade tax by using company money to buy private assets.

The latest notice limits its regulating territory to private businesses. However since some employees of state-owned and foreign-funded enterprises also followed this law-breaking practice and it is thought

that the notice might be extended to cover other businesses in the future.

The move can be considered as one of the major steps the taxation authority is taking to improve China's personal income tax system, aiming to generate more fiscal revenue as the country's economy booms.

In the first half, China collected 1.03 trillion RMB in tax revenue, 22.4 percent higher than the same period a year ago. Included in the figure was 241.2 billion RMB from corporate and individual income tax.

Effects of New China - Hong Kong Trade Deal

At the end of June this year the government's of China and Hong Kong ended eighteen months of discussion and put pen to paper on the Closer Economic Partnership Arrangement (CEPA).

The arrangement is expected to strengthen trade and investment co-operation between the two sides and is viewed by many as a strong boost for the fledgling Hong Kong economy. CEPA will aid Hong Kong companies' trade and investment in China by lifting customs tariffs and lowering investment thresholds.

Broadly speaking CEPA covers the sales of goods and the provision of services, as well as the general facilitation of trade and investment between Hong Kong and the mainland. By scrapping import tariffs on goods made in Hong Kong, it is estimated that Hong Kong exporters will save a yearly amount of HK \$750 million.

Tariffs will be eliminated on 273 types of goods accounting for nearly 60 percent of Hong Kong's exports to the mainland on all kinds of goods. Items not covered by CEPA will no longer be taxed after 2006.

Many economists however projected rather small short-term benefits, and noted that other possible actions by the Chinese government would have far greater effects on the Hong Kong economy.

Estimates of jobs to be possibly created numbered between four and nine thousand, a relatively small percentage of the colony's 300,000 unemployed, a record at 8.3% of the workforce. Hong Kong's budget deficit reached HK\$62 billion, or 5.5% of GDP, last year as well.

China to Build World's Largest Shipyard in Shanghai

The China State Shipbuilding Corporation (CSSC) announced last week that it will build a new shipyard with an eight-kilometre water frontage in Shanghai, which will be the largest shipyard in the world. The new shipyard would be built on Changxing Island, off Shanghai. The water frontage will be longer than the total length of all major shipyards in Shanghai and is expected to be the world's longest.

CSSC General Manager Chen Xiaojin said the new shipyard will need an investment of around 20 to 30 billion RMB and will be accomplished in eight to ten years from the construction of the cofferdam in November.

CSSC declared that all sources of capitals would be welcomed to participate in the construction of the shipyard, including domestic private capital and overseas investment. The new shipyard will help

[Taxation Terms](#)

增值税

"Zeng Zhi Shui"

(Value Added Tax)

营业税

"Ying Ye Shui"

(Business Tax)

消费税

"Xiao Fei Shui"

(Consumption Tax)

所得税

"Suo De Shui"

(Income Tax)

increase Shanghai's shipbuilding capacity from the current three million tons to 12 million tons in 2015.

With increased shipbuilding capacity in 2015, the new shipyard would also help boost relevant industries like steel and engine manufacture, and create job opportunities for more than 700,00 people.

China Rejects International Bank Rules

China will introduce its own rules on bank capital requirements instead of adopting the new, strict Basel accord. The Basel Committee on Banking Supervision, the global rule-setting body of central bankers and financial regulators, is drawing up an accord that will keep the minimum capital requirement for banks at 8%, a level many debt-ridden Chinese banks are still unable to reach.

The China Banking Regulatory Commission (CBRC), set up earlier this year to take over supervisory power from the central People's Bank of China, will issue the country's first rules on capital-adequacy ratios later this year.

The accord is to replace the 1988 Basel pact, which many in the financial world say is hopelessly outdated. Some bankers estimate the Basel rules could lead to the capital charge - the minimum capital that banks are obliged to hold - rising by up to 60%, making the profitability of some activities significantly less attractive.

China will continue to implement the old 1988 accord at least for a few years after the G-10 starts implementing the new capital accord in 2006, declared a spokesman at the CBRC.

This will help put more pressure on banks to increase their capital-adequacy ratios.

The government issued 270 billion RMB in bonds in 1998 and injected the proceeds into the four state banks - Bank of China, China Construction Bank, Industrial and Commercial Bank of China and Agricultural Bank of China. Only Bank of China however managed to keep its capital-adequacy ratio above 8% due to expanded assets and the need to write off piles of bad loans, analysts said.

Haier - a truly Chinese-Global Brand

Few Chinese manufacturing companies are known outside their home markets, because most would rather supply goods to established Western brands than compete under their own brand names in Europe and North America.

Haier Group, a diversified manufacturer of more than 80 products ranging from refrigerators, washing machines, and air conditioners to cell phones and televisions and the world's fifth largest maker of white goods however seeks to sell its appliances and its brand to the outside world.

As China's domestic markets have mushroomed over the past two decades, Haier has built a reputation at home for quality, innovation, and customer service. It enjoys leading domestic market shares in washing machines (25 %), refrigerators (22 %), vacuum cleaners (20 %), and air conditioners (12 %). Haier sells its products in more than 150 countries and owns 13 factories outside China.

Until 1984 Haier was a money-losing collective enterprise under the authority of municipal and state governments. Then Zhang Ruimin, now its chairman and CEO, took charge and has been the architect of its domestic success ever since. Through a series of reorganizations and acquisitions he turned the company into a conglomerate with more than 30,000 employees. In 2002 the Qingdao-based company had worldwide sales of more than \$8.5 billion, an 18 percent increase over 2001.

With respect to product brands, the Beijing Famous-Brand Evaluation Co. earlier this year released its

list of 32 most valuable brands on the mainland market. At the top of this list is Haier, with a brand value of 48.9 billion RMB.

According to a recent interview with the McKinsey Quarterly, Zhang Ruimin believes that the Haier Group can extend its strong domestic brand reputation into the West by introducing innovative products for niche consumer markets and then expanding into bigger ones - a strategy that would enable the company to enjoy the higher margins that come with brand sales instead of slugging it out as a low-cost supplier to Western companies. Meanwhile, stiffer competition at home from new Chinese entrants and foreign giants such as Siemens has strengthened the company's wish to step up sales in the United States, Europe, and Japan.

Zhang Ruimin was even elected as an alternate member of the Central Committee during the 16th Communist Party National Congress last year. Zhang - one of the few businessmen to gain this position - is politically well placed to lead the company's charge into global markets. Yet as Haier tries to replicate its domestic success overseas, it faces enormous challenges - everything from learning the preferences of new customers to managing its growing foreign operations.

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