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Circular of the State Administration of Taxation on Printing and Distributing the Specific Measures on Further Strengthening Tax Administration

**Guo Shui Fa [2009] No. 114
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To the state taxation bureaus and local taxation bureaus of all provinces, autonomous regions, municipalities directly under the Central Government and cities specifically designated in the state plan:

For the purposes of further strengthening tax administration and stopping leaks to increase tax revenue, and guaranteeing the accomplishment of this year's tax revenue increase targets, the State Administration of Taxation has formulated the Specific Measures on Further Strengthening Tax Administration, and it is hereby distributed to you. Please earnestly implement in line with the actual circumstances.

Tax bureaus of all levels shall unify thinking and strengthen confidence. You should understand the serious situation of accomplishing the whole-year tax revenue increase target, while you should also note the favorable situation of sustainable and steady development of the national economy for such target. You should sustain legal administration of tax and optimization of service all along, and especially in the case of serious revenue situation, revenue principles shall be resolutely implemented, tax payment services shall be optimized and law enforcement shall be carried out in a fair, equal, cultural and regulative way. You should actively adopt measures to make up leaks of revenue to strive for collecting all receivable at the same time when carefully implementing the structural tax reduction policy. You should actually strengthen leadership, and closely carry out self-check on the implementation of relevant documents of the State Administration of Taxation on strengthening tax administration and stopping leaks to increase tax revenue, and the State Administration of Taxation is to organize supervision and inspection in appropriate time.

Specific Measures on Further Strengthening Tax Administration

Article 1 Carry out thorough check on tax payers. You should carry out thorough check on tax payers by utilizing information and organization registration code provided by industry and commerce authorities and quality inspection authorities as well as tax registration information interchanged between state and local tax authorities, especially on leased counters of streets, stations and malls, leasing businessmen in market and businessmen in office and residential buildings, house leasing and other weak chains; and you should check tax payers whose business

cancellation, business suspension or disappearance are false to prevent omission of tax administration.

Article 2 Strengthen tax administration on special market and self-employed businessmen. You should focus on industrial tax burden analysis on tax payers characterized as "shop attached with plant" in special markets, grasp business characteristics of the industry, and strengthen tax payment appraisal and inspection; and strengthen verification with norm on self-employed businessmen engaged in such industries as decoration, building materials, steel, furniture, clothing, food, entertainment and beauty, and re-verify and adjust the norms in accordance with law in case they are relatively low; and carry out tax collection on the basis of accounts for those of large business scale and reaching standards of account establishment.

Article 3 Strengthen the clearance of overdue tax. You should administrate according to the responsibility on overdue tax, strictly control new overdue tax, reduce 20% of overdue tax of early years in contrast with the beginning of this year, and may clear and turn overdue tax of early years into the treasury temporarily.

Article 4 Strengthen the administration on consumption tax base. You should carefully implement relevant policies on increasing consumption tax rate on finished oil products and cigarettes. You should strengthen supervision and administration on wine production enterprises' driving down initial price and infringing on customers' interests through establishing separate sales companies, and prevent them from evading consumption tax by taking advantage of associated transaction through evaluating the minimum tax base.

Article 5 Strengthen the administration on parent and subsidiary enterprises that operate across the regions and pay tax in a consolidated manner. Information communication between parent and subsidiary enterprises' competent tax authorities of shall be strengthened to check the authenticity of pre-paid tax amount on monthly or quarterly basis. Where any level 2 branch with subject status of production and operation fails to obtain consolidated payment allocation form of enterprise income tax, the tax authority where the branch is located shall apply to the competent tax authority where the parent enterprise is located for urging the parent enterprise to provide an allocation form, and if the parent enterprise refuses, it shall be punished in accordance with relevant provisions of the Tax Collection Administration Law. Tax authorities where subsidiary enterprises are located shall coordinate check carried out by the tax authority where the parent enterprise is located. If any branch is checked to hide incomes, tax payment shall be made up locally and remitted into the treasury.

Article 6 Strengthen the administration on pre-tax deduction items of enterprise income tax. Your check shall be focused on cost item of input-out ratios deviating greatly from the same industry without appropriate reasons and deduction of production and operation expenses mixed up with private and family expenses. You should analyze deduction of wage expenditure by utilizing collection of individual income tax, social insurance premiums, labor contracts and other information to ensure the authenticity of the deduction items. Deduction shall not be made before tax without legal and valid vouchers as prescribed. With respect to asset losses calculated and

deducted by enterprises, competent tax authorities shall strengthen spot check and follow up the administration after the enterprises deduct the asset losses themselves, and shall require them to make up tax payment in the case of their failure to satisfy requirements. Any subject to approval shall not be deducted before tax until approved. With respect to pre-tax deduction of asset losses of consolidated tax enterprises, other than losses incurred by bundled assets, the parent enterprise may not deduct until the competent tax authorities where the branches are located approve.

Article 7 Strengthen the management on taxable incomes of enterprises. You should strengthen the check of enterprises' taxable incomes earned not in the form of currency. You shall focus on analyzing and checking tax payers whose sale incomes for value added tax and business incomes for business tax in the same taxable period are apparently different, and trace back to previous years in the case of any serious issue.

Article 8 Strengthen the tax administration on intermediate institutions. Tax for such attestation intermediate institutions as tax firms, accounting firms, asset appraisal and real estate evaluation institutions shall not be levied in a deemed way.

Article 9 Accelerate the recognition of non-profitable organizations. Non-profitable organizations granted with preferential tax shall be required to account profitable incomes and non-profitable incomes separately and enterprise income tax shall be levied on the profitable incomes. Where it is difficult to separately account profitable incomes and non-profitable incomes and their costs and expenses, no income tax exemption policy only for qualified non-profitable organizations may be granted.

Article 10 Strengthen the supervision and administration on tax levy on shares transfer. With respect to shares transfer by resident enterprises, you should actively obtain information shareholder change registration from industry and commerce authorities and shares transfer information from share exchanges, and fully utilize the existing policy to strengthen effort on collection of enterprise income tax. With respect to non-resident enterprises transferring shares in the territory of China, you should promptly collect transfer information, grasp economical nature of the transfer, identify and prevent their tax avoidance activities by abusing structural forms, tax avoidance regions and tax protocols to prevent outflow of tax revenue.

Article 11 Strengthen the administration on recognition of overseas listed enterprises as Chinese resident enterprises. You should earnestly promote the implementation of the Circular of the State Administration on Issues Concerning Recognition of Chinese-controlled Enterprises Registered Overseas as Chinese Resident Enterprises on the Basis of the Actual Administration Authorities (Guo Shui Fa [2009] No. 82) to accelerate the promotion of recognition administration and registration of qualified Chinese-controlled enterprises registered overseas as Chinese resident enterprises so as to prevent tax avoidance through registering enterprises overseas.

Article 12 Strengthen the administration on anti-tax avoidance. You should strengthen national joint check and industrial joint check, especially on enterprises with long-term losses but consecutively enlarging scope, so as to actually resolve tax evasion through associated transaction,

capital weakening and false "processing on giving materials"; with regard to financing high way construction, you should strictly check the foreign party apply for loan in China through its subsidiary located in China with charging right of the high road as pledge and then put money from loan into the construction to obtain the charging right of the high road, which belongs to associated transaction because of its failure to reflect the principle of independent transaction so as to ensure that profit of the subsidiary in China matches with its functional risk; with respect to pharmacy industry, you should focus on the determination of intangible asset value; with respect to hotel chain industry, your check shall focus on such associated transactions as paying service charges and management fees to the overseas parent company by hotel chain groups above four-star level; and you shall strengthen supervision on cross-border associated transactions, especially on enterprises within the territory of China only responsible for such limited functions as single production, distribution or contractual research and development, so as to prevent multinational enterprises from transferring operation losses of overseas enterprises into the associated enterprises within the territory of China under the background of international financial crisis.

Article 13 Strengthen the tax base management on resource tax. State bureaus of each level shall provide declaration and invoice purchase information of tax payers for sales of mineral resources to local tax authorities; while local tax authorities solicit information of resources development licensing, collection of relevant charges and Fire Engineering consumption goods from authorities of state land and public security, carry out comparison and analysis, check tax base and make up leaks of administration.

Article 14 Strengthen the tax collection administration on construction and installment industry and real estate industry. You should put all tax-related links of project development and operation, such as land reserve, land development of level 1, land supply, obtaining land use right (including transfer of second-hand land), exploration, design, operation start (including earthwork, equipment installment, decoration and greening), supervision, house sale, reserving, estate management, transfer of second-hand houses and leasing, under supervision and control, collect tax-related information of each link, carry out analysis and comparison and strengthen tax evaluation and check. You should, strictly in accordance with the requirements of Settlement Administration Proposals of Land Value Added Tax, strengthen settlement of land value added tax, and mainly check costs and expenses of real estate development by reference to relevant information of income tax declaration. With respect to real estate enterprises under common administration by state and local tax authorities, competent tax authorities shall interchange their declaration information of income tax and business tax on a regular basis, strengthen comparison and analysis, and carry out joint evaluation and check on those suspicious. You should further implement the "one-window" collection mode for real estate transfer, develop trial work of using real estate tax evaluation technology to estimate the taxable value of second-hand houses transaction price, and collect tax on the basis of estimated taxable value if tax payer makes an declaration of apparent low transfer price without due reasons.

Article 15 Strengthen the supervision on tax sources of key projects. You should actively solicit support from local government to grasp the establishment, successful bid, construction progress

and capital use of local key projects, confirm relevant happening situations of tax payment obligations of relevant tax types in accordance with law and adopt corresponding administration measures. State and local tax authorities shall interchange information, coordinate each other, mainly check the invoice issue and tax declaration by enterprise supplying staple materials and articles the project purchases so as to guarantee tax fully into the treasury in a timely manner.

Article 16 Carry out special tax collection rectification on medicine retail field. You should fully collect medical insurance information sent to all appointed medicine shops by medical insurance centers, and check with tax declaration information provided by medical retail enterprises. If any tax evasion is suspected, you should investigate promptly and trace to proceeding year in the case of serious problems.

Article 17 Strengthen the tax collection administration on labor dispatch by non-resident enterprises. Investigation shall be focused on labor dispatched by non-resident enterprises to the territory of China to provide management, design, attestation and consulting services to correctly determine the non-resident enterprises' tax obligation in accordance with Chinese domestic tax laws and tax protocols.

Article 18 Carry out special check on tax levy on non-resident enterprises. You should carry out check on non-resident enterprises contracting key projects, Chinese domestic enterprises distributing share interests and profits, paying interests, and non-resident enterprises transferring shares and so on, and promptly recover tax in accordance with laws if finding out problems.

Article 19 Strengthen the check on large enterprises and key projects. You should do a good job in supervision and selective check on the basis of urging enterprises' self check; you should comprehensively appraise status of self-check and selective check and require enterprises with general tax problems and incomplete self-check to carry out self-check continuously; put enterprises with serious tax problems and incomplete self-check into objects to be checked mainly and prepare work program for main check; and carry out special check on partial large enterprise groups. You should select enterprises deemed as main tax sources to be checked in accordance with local situations. Special check shall be focused on strengthening appraised value added of fixed assets, shares transfer incomes, property transfer income, land and real estate transfer incomes, overseas investment income, failure to pay land value added tax after withdrawn, over-accrued annual fund and other key items. Tax payable confirmed in self-check and check shall be promptly organized to be put into the treasury.

Article 20 Strengthen the account adjustment for making up tax payment. You should urge tax payers to make correct account adjustment for tax payment that has been made up; you should review tax payers' account adjustment issues referred to check at the preliminary stage when carrying out tax check to prevent tax payers from offsetting tax payable with tax payments that have been made up.