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Market Insights

Overview of China's 12th Five-Year Plan



The 12th Five-Year Plan, the primary planning guideline for China's economic and social development for 2011-2015, was announced on March 16th, 2011. The plan aims to have a 7 percent annual GDP growth during the next five years to allow for steady economic development, and encourage domestic consumption, innovation, and environmental protection.

When compared to previous five-year plans, the 12th plan serves as a major indicator of upcoming opportunities for both foreign and domestic companies.

The 12th five-year plan main points include:

- **Restructure manufacturing** – Continuing China's move up the value chain, emphasis is given to advanced equipment manufacturing, R&D, and system integration, as well as promoting consolidation and supporting the growth of SMEs
- **7 strategic industries identified** – The government will prioritize the development of energy saving and environmental protection, next generation IT, biotech, high-end equipment, new energy, advanced materials, and new energy vehicles; these industries will receive special industrial development funds, grants, loans, and various tax incentives
- **Develop energy resources & production** – China will continue its diversification of energy sources, including renewable/clean energy and nuclear development in Coastal and Central regions; the goal is to improve energy processing, transformation, and distribution
- **Infrastructure and ocean-related development** – The government will upgrade transportation and information infrastructure as well as promote ocean-related industries such as deep sea oil and gas and marine biopharmaceuticals
- **Promote service sector** – Raising proportion of service sector, deepening industry specialization, and promoting service scale, brand and operation through network

Overall, the government aims to continue China's transformation from a low-tech manufacturing economy to a high-tech & high value-added innovation-based economy.

Supplementing the overall 12th Five-Year Plan, each industry will be issued its own specific Five-Year Plan. Foreign companies seeking to take advantage of these emerging opportunities are advised to first consult a professional service provider to better understand their specific field and to determine how best to enter or grow.

For more information about China's 12th Five-Year Plan, please email Mark Ray at mark.ray@jljgroup.com

Tax Updates

Stronger Tax Collection from High-Income Individuals

On April 15th 2011, the State Administration of Taxation (SAT) released a strengthening regulation regarding the management of Individual Income Tax (IIT) on high-income individuals (including foreigners), in order to further reduce the gap between different income groups.

Tax authorities shall place more attention on examining the IIT associated with production and operation income from proprietorships and partnerships, individual equity and property transfer income, as well as individual income from interest, dividends and bonuses. Individuals with an annual before-tax income above RMB 120,000 are categorized as high-income taxpayers.

The main points of the regulation are summarized below:

1. IIT on production and operation income:

- a. Income derived from proprietorship or partnership enterprises' investments on stocks, futures, funds, bonds, currency exchange, precious metals, and resource exploitation rights shall all be counted as production and operation income, and are subject to IIT payment.
- b. If capital from proprietorship and partnership enterprises is used for their own family consumption instead of business spending, IIT shall be taxed according to related regulations.

2. IIT on equity & property transfer income:

- a. For equity transfer income, SAT will work with industry and commerce administration to verify the transfer price of private company shares, ensuring that it is not significantly below the market price, undervaluing the capital gain income tax. Establishment of e-ledger system, which documents the prices and transactions of equity transfers will help SAT to strengthen the management of original asset value.
- b. The government will also strengthen the IIT on individual transfer of preferred shares on public companies.
- c. For individuals who transfer their properties, the tax bureau will verify if the transfer price of the property is significantly below the market price to deliberately reduce the income tax.

3. IIT on interest, dividend, and bonus income:

- a. The tax bureau shall further investigate retained earnings, reserve, capital appreciation and asset revaluation that are converted into registered capital and equity, to close loopholes in this area.
- b. For profitable and growth companies that do not distribute dividends or bonuses, tax authorities shall conduct further investigations into the actual income of the enterprises' individual investors.

For more details of IIT on high-income individuals, please contact tim.lamb@ijigroup.com.



Human Resources

Social Benefit Basis Adjustment

Shanghai Labor and Social Security Bureau announced on April 1st 2011, that full-time employees in Shanghai would begin to receive an average annual salary of RMB 46,752, (average monthly salary of RMB 3,896), an increase of about 9% from 2010. The increased salary may affect employer's social insurance contribution.

Currently, the lower and upper limits of social insurance and welfare benefits contributions are 60% and 300% of Shanghai's average salary respectively – figures that are revised on an annual basis. Following the announcement on April 1st, employers in Shanghai will see an increase in their social insurance contributions if their local employees' (Shanghai residents) monthly salaries are below RMB 2,338 or above RMB 11,688. The adjustment will be valid from April 2011 to March 2012.

Meanwhile, the integrated insurance premium for employees who migrate from rural Hukou areas has been increased as well to RMB 292.20 per month



and the minimum hourly and monthly wage requirements in Shanghai this year are RMB 11 and RMB 1,280 respectively. Employers should expect similar adjustments to the contribution for public housing funds in July this year.

For more information on Social Benefit Basis Adjustments, please contact May Bai at may.bai@jljgroup.com.

China FDI

China's New Energy Sector Growing Potential



Seeing a rapid growth in its clean energy sector during the last 5 years, China is renewing its commitment with the 12th five-year plan (2011-2015) to further develop clean energy industries. While encouraging economy of scale in the past, the government is now focusing on developing a wider application of technologies within the industry, as well as welcoming foreign investment in this sector.

Cutting carbon emission and rising oil prices has made it an obvious choice to turn to the renewable energy industry and promote its development. Using wind, solar, bio, nuclear and tidal energy will ensure that there will be a sufficient amount of power to support China's clean development.

While the 11th five-year plan encouraged the new energy sector development in terms of scale, the 12th five-year plan encompassed a wider scope and specific fields within the industry. Pending for approval, the new energies industry development guideline specifies not only renewable energy resources, but also their potential usage, such as clean coal technology, the smart grid*, and non-conventional gas, such as natural hydrocarbon gas.

Foreign investment in the new energy sector will also be promoted. Earlier this month, a new draft guideline for foreign investment was released by the Legislative Affairs Office of the State Council. According to the draft, China invites foreign companies to invest in its "emerging sectors", which includes amongst others the new energy sector.

The new energy industry is rapidly growing in China and will become a very significant, rather than alternative energy solution. China's clean energy sector has already shown major growth with investment growing 39 percent since 2010, exceeding 54.4 billion USD.

* "The electric grid delivers electricity from points of generation to consumers, and the electricity delivery network functions via two primary systems: the transmission system and the distribution system. The transmission system delivers electricity from power plants to distribution substations, while the distribution system delivers electricity from distribution substations to consumers." (Energy.gov)

For more information about China's new energy sector, please contact tim.lamb@jljgroup.com.

The JLJ Group

The JLJ Group is a one-stop service provider assisting foreign companies with their mission to enter and grow in China. For more information visit www.jljgroup.com or email us at info@jljgroup.com.

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