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Solutions for China Entry & Growth*

Welcome to JLJ's e-newsletter - **China Focus**. Here, we hope to share with you the latest regulatory updates and useful information relevant to China's business environment. This e-newsletter is brought to you, our valued network, as part of JLJ's value-added service.

China FDI

Foreign Investment Reflects Continued Confidence in the Chinese Market



Despite global financial instability, foreign investors continue to invest money in the Chinese market. After a 10-month downturn, FDI has returned to positive growth for the second month in a row, reaching \$7.9 billion in September. This is an increase of 19 percent from last year. Newly approved foreign enterprises rose 11 percent from the previous year as well.

These positive outcomes are largely due to China's strong economic recovery - GDP is also up, reaching 8 percent in the second quarter, a 2 percent increase from the first quarter. Growth is expected to continue to grow by 8 percent this year and return to 9 percent in 2010, provided the crisis does not worsen and no natural disasters occur.

Investors' confidence in the Chinese market is strengthened by these economic indicators. Li Kang, vice president and chief economist at Xiangcai Securities, named China as one of the best destinations for foreign investment. He attributes this to the small risk and great market potential from a rising domestic demand. In addition, the Chinese government is making efforts to improve its investment environment. Yao Jian of the Ministry of Commerce (MOFCOM) states that foreign income from Chinese investment reached over \$50 billion, a yearly increase of 34 percent. Volume from business contracts amounted to about \$88 billion, a 15 percent increase.

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Opportunities in China's clean tech and renewable energy sectors

China's economy is expected to become the world's largest economy within the next 20 to 40 years. Coupled with this economic growth, there has been a corresponding increase in demand for energy.

Presently, coal accounts for over 68 percent of China's energy supply. Even with clean-burning technologies, relying solely on coal and other fossil fuels to meet energy demands is difficult to sustain and negatively impacts the environment. Recognizing this, the Chinese government has been pushing towards developing green technology and adopting renewable energy sources such as *wind*, *solar*, and *bio-energy*.



Several opportunities in these sectors exist, for example:

- **Market potential:** China plans to have 15 percent of its energy derived from renewable sources by 2020
- **Favorable policies:** Government committed to supporting green technology development through policies, subsidies, and tax incentives
- **Partnership opportunities:** growing emphasis on identifying technology partners for technology transfer, joint research, and development

Although opportunities in China's green technology and renewable energy markets are attractive, companies considering entering the market may face challenges. Therefore, it is important that companies understand key factors in their specific markets such as *market trends*, *competitive landscape*, and *regulatory environment*.

For more information on finding suitable Industry partners in China, please email Mark Ray at mark.ray@jljgroup.com

Tax Updates

Circular 55: Adjustment of tax policies related to the importation of key technological equipment and machinery

On August 20, six government authorities issued Circular Cauguanshui No 55 on the adjustment of tax policies related to the importation of key technological equipment and machinery, in order to support the domestic equipment manufacturing industry. The circular defines new tax exemptions for certain imports for the year 2009 starting July 1. Qualifying companies may enjoy exemptions on imported key technological equipment and machinery (KTEM) spare parts with the following specifications:



- KTEM for domestic manufacturing and developing will be exempt from customs duty (CD) and value added tax (VAT)
- Importation of complete sets of equipment will no longer be exempt from taxation
- The "Levy First and Refund Later" which applies to KCRMs imported for domestic KTEM developing and manufacturing policy of CD and import VAT is abolished

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Human Resources

Some Issues Concerning the Levy of Individual Income Tax



In order to better implement the Individual Income Tax (IIT) Law of the People's Republic of China, the State Administration of Taxation of China recently reaffirmed some issues concerning the contents and scope of the IIT levy. In particular, the question concerning the taxes on salary was raised due to several problems exposed during tax auditing.

To further clarify the specifics of taxation, the State Administration of Taxation made several distinctions. For income tax on certain specific incomes such as subsidies and allowances, the following procedures apply. Transportation and correspondence allowances should be taken as part of salaried income, and the tax should be declared at a certain rate in accordance with the related regulation of the local government. In addition, extra benefits such as commercial insurance are also

taxable.

The subsidies and allowances which are exempt from tax include: one-child subsidies, the balance of subsidies and allowances not included in the total basic wages for implementing the public functionary wage system, non-basic food subsidies for family members, nursery subsidies; travel expense subsidies and subsidies for missing meals. In addition, the "13 month salary" will no longer be subject to IIT as a monthly salary.

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The JLJ Group

The JLJ Group provides solutions to foreign companies entering and growing in China. Our core services include Market Consulting, Corporate Formation, Human Resources, Tax & Accounting as well as Business Process Outsourcing.

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