

# CHINA FINANCE

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### HIGHLIGHTS

- Finance Minister Liu Kun: the implementation of the special additional deduction policy is the biggest highlight and the most difficult area of personal income tax reform
- Vice Finance Minister Zou Jiayi attended the ASEAN+3 Finance and Central Bank Deputies Meeting held in Busan, Republic of Korea
- MOF published a circular on further improving the harmonization between the old and the new government accounting standards system and strengthening the asset accounting of government-sponsored institutions
- MOF published a circular on the preferential tax policies for poverty alleviation through relocation
- China's fiscal revenues and expenditures in November

# Brief Introduction to IEFI

Founded in 2007, the International Economics and Finance Institute (IEFI) is affiliated to the Ministry of Finance of China, specializing in international economic and financial studies. Its main functions include macroeconomic research on advanced economies such as U.S., Europe and Japan, and on emerging economies such as BRICS countries; research on global and regional economic and financial cooperation, global governance reform and international development cooperation; participation in bilateral and multilateral financial dialogues; and exchanges with think tanks and government agencies around the world.

## Contents

-  I . Policy Update
-  II . Facts & Figures
-  III . MOF Events
-  IV . Local Finance
-  V . Remarks & Opinions

## I. Policy Update

### 1. MOF published a circular on the advance disbursement of the 2019 budget of central special lottery public welfare funds to support the development of local social and public welfare undertakings

On November 30, the Ministry of Finance (MOF) published a circular on the advance disbursement of the 2019 budget of central special lottery public welfare funds to support the development of local social and public welfare undertakings, which provided the following. First, in order to speed up the pace of budget implementation and improve the integrity of budget preparation, the 2019 budget of central special lottery public welfare funds to support the development of local social and public welfare undertakings is now disbursed and will be used according to procedures after the start of 2019 budget year. Second, when the budget is used, it should be included in the *2019 Government Revenue and Expenditure Classification*,

### 2. MOF published an announcement on adjusting the list of goods imported through cross-border e-commerce retail

On November 30, MOF published an announcement on adjusting the list of goods imported through cross-border e-commerce retail, which provided the following. First, to promote the healthy development of imports through cross-border e-commerce retail, the *List of Goods Imported through Cross-border E-commerce Retail* is now published and will be implemented starting from January 1, 2019. Second, after the implementation of this list, the *Announcement of the Ministry of Finance and Other Ten Departments on Publishing the List of Goods Imported through Cross-border E-commerce Retail* and the *Announcement of the Ministry of Finance and Other Twelve Departments on Publishing the List of Goods Imported through Cross-border E-commerce Retail (Second Batch)* are also abolished at the same time.

### 3. MOF published a circular on improving the import tax policy for cross-border e-commerce retail

On November 30, MOF published a circular on improving the import tax policy for cross-border e-commerce retail, which provided the following. First, the single transaction limit for cross-border e-commerce retail imports will be raised from 2,000 RMB to 5,000 RMB, and the annual transaction limit will be increased from 20,000 RMB to 26,000

RMB. Second, when the dutiable price exceeds the single transaction limit of 5,000 RMB but is lower than the annual transaction limit of 26,000 RMB, and if only one merchandise is placed under the order, it can be imported from the cross-border e-commerce retail channel and be subject to tariff, import VAT and import consumption tax with the turnover included into the annual aggregate turnover. However, if the annual aggregate turnover exceeds the annual transaction limit, it shall be administered as general trade. Third, the imported e-commerce goods are the end products used by consumers, and shall not enter the domestic market for re-sale. In principle, "purchase online, pick-up in store" outside the special customs supervision area is not allowed for the bonded imported goods that are purchased online.

#### **4. MOF published a circular on the preparation of the internal control report for the government-sponsored institutions in 2018**

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On November 30, MOF published a circular on the preparation of the internal control report for the government-sponsored institutions in 2018, which provided the following. First, increase awareness and enhance organization and coordination. Coordinate internal control reporting work with departmental final accounts, government procurement and state-owned assets reporting to ensure consistency of data. Second, make timely and accurate reporting and intensify review. All units shall, in light of the actual

conditions and implementation of internal control within the unit, timely and accurately prepare and submit the unit's internal control report in accordance with the requirements of this circular. Third, carry out analysis and application and strengthen supervision and guidance. All regions and departments should stay demand-focused and problem-oriented, explore the application of big data technology, tap the value of internal control reports, and actively carry out thematic analysis of internal control reports and the application of evaluation results.

#### **5. MOF published a circular on further implementing the tax policy for the entrepreneurship and employment of key groups of people**

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On December 3, MOF published a circular on further implementing the tax policy for the entrepreneurship and employment of key groups of people, which provided the following. First, make careful planning and ensure sound implementation of policies that support the entrepreneurship and employment of people registered as unemployed for more than half a year, college graduates in the graduation year, zero-employment families, and the unemployed, working-age people receiving minimum living allowance. Second, earnestly implement the spirit of the *Decision of the CPC Central Committee and the State Council on Winning the Battle against Poverty*, and provide the enterprises that employ documented poor people in rural areas with tax incentives to support the fight against poverty. Third, all levels

of finance, tax, human resources and social security authorities should improve the information sharing mechanism and optimize the taxation process; and take the initiative to improve policy publicity and interpretation so that enterprises and people with difficulties can get to know and understand relevant policies; strengthen investigation and research, closely track the implementation of tax policies and timely resolve the difficulties and problems in the process of policy implementation.

## **6. MOF published a circular on the personal income tax policies for individuals' transfer of the stocks of companies listed on the National Equities Exchange and Quotations**

On December 6, MOF published a circular on the personal income tax policies for individuals' transfer of the stocks of companies listed on the National Equities Exchange and Quotations (NEEQ), which provided the following. First, starting from November 1, 2018, the income derived from individuals' transfer of non-original issue stock of NEEQ companies will be temporarily exempted from personal income tax. Second, the income derived from individuals' transfer of original issue stock of NEEQ companies will be subject to personal income tax at a rate of 20% as "income from property transfer". Third, before September 1, 2019, the personal income tax on individuals' transfer of original issue stock of NEEQ companies will be collected in accordance

with the relevant current provisions governing the equity transfer, with the stock buyer withholding the taxes and the tax authorities of the place where the invested enterprise is located responsible for collection. Since September 1, 2019, the personal income tax on individuals' transfer of original issue stock of NEEQ companies will be withheld by the securities agency offering custodian services for the stock, with the tax authorities of the place where the securities agency is located responsible for collection. Fourth, before November 1, 2018, individuals' transfer of non-original issue stock of NEEQ companies may be governed by the first article of this circular if relevant tax treatment has not yet been carried out; otherwise, no tax adjustment will be made. Fifth, the China Securities Depository and Clearing Corporation should clearly distinguish between the original issue stock and non-original issue stock in the registration and clearing system. China Securities Depository and Clearing Corporation, securities companies and their branches shall actively cooperate with the finance and tax authorities in carrying out the relevant work.

## **7. MOF published a circular on the issuance of the *Measures for Management of Accounting Personnel***

On December 10, MOF published a circular on the issuance of the *Measures for Management of Accounting Personnel*, which provided the following. First, in order to strengthen the management of

accounting personnel and regulate the conduct of accounting personnel, the Measures are formulated in accordance with the Accounting Law of the People's Republic of China and relevant laws and regulations. Second, accounting personnel shall have accounting-related professional knowledge, basic command of accounting and business skills, independently handle basic accounting business, and demonstrate their professional capability required for accounting work. Third, the relevant units should appoint (employ) accounting personnel in light of their needs for accounting in accordance with the Accounting Law of People's Republic of China and other relevant laws and regulations. Fourth, the personnel who have been investigated for criminal offense related to accounting shall not be appointed (employed) for carrying out accounting work.

### **8. MOF published a circular on extending the consumption tax exemption policy for recycled waste mineral oil products**

On December 12, MOF published a circular on extending the consumption tax exemption policy for recycled waste mineral oil products, which provided the following. First, in order to further promote the comprehensive utilization of resources and environmental protection, with the approval of the State Council, the Circular of the MOF and the State Administration of Taxation on the Exemption of Consumption Tax for Recycled Waste Mineral Oil Products is extended for 5 years from November 1, 2018 to October 31, 2023. Second, from November 1,

2018 to the issuance of this circular, the taxpayers who have already paid consumption tax will be refunded in accordance with the provisions of this circular.

### **9. MOF published a circular on further improving the harmonization between the old and the new government accounting standards system and strengthening the asset accounting of government-sponsored institutions**

On December 13, MOF published a circular on further improving the harmonization between the old and the new government accounting standards system and strengthening the asset accounting of government-sponsored institutions, which provided the following. First, issues related to the harmonization of the new and the old government accounting standards system. (1) The scope of the implementation of standards. The government-sponsored institutions that are not included in the departmental budget and final accounts management may choose not to implement the budget accounting requirements set out in the *Government Accounting System-Accounting Items and Financial Statements of Government-sponsored Institutions* and only implement financial accounting requirements. (2) The accounting scope of budget accounting. The relevant institutions shall, in accordance with the requirements of comprehensive departmental budget management, conduct budget accounting for all cash receipts and payments that are included in the departmental budget management. Budget accounting should be carried out for non-

fiscal appropriations that are not included in the budget approved at the beginning of the year but are included in the scope of the preparation of final accounts. (3) The stock of public infrastructure that has not yet been recorded. The relevant institutions shall, in accordance with the provisions of the *No. 5 Government Accounting Standards-Public Infrastructure*, complete the book-keeping of the public infrastructure that has not yet been recorded, with January 1, 2019 as the starting date of accounting. At the same time, the circular also provides specific provisions on cultural relics and assets, assets measured according to nominal value, long-term equity investment, depreciation of fixed assets, construction in progress, research and development expenditure, employee compensation payable, benefits payable, harmonization of the old and new "non-fiscal appropriation balance" of government-sponsored institutions, revenue recognized according to contract completion progress, entrusted agency assets and fiduciary agency liabilities and revenue of fiscal appropriation (budget).

Second, requirements on strengthening the accounting of assets of relevant institutions. (1) Further sort through, verify and categorize data on fixed assets, intangible assets, inventory and foreign investment, in order to provide basic information for accurate depreciation, amortization of expenses and determination of equities. (2) Further standardize and strengthen the management of current payments, comprehensively carry out special clean-up and aging analysis of current payments, timely report and process current payments, and improving the provisioning for distressed debts. (3) Further sort through the

accounting documents for capital construction, timely convert the delivered construction projects into fixed assets and intangible assets, and timely complete the formal financial settlement procedures for capital construction projects in accordance with regulations, in order to prepare for the inclusion of capital construction investment business into the unified book-keeping of the institution for accounting. (4) Further clarify the principally responsible entity for asset possession, use, maintenance and management, keep the account of the public infrastructure, government reserve materials, affordable housing and other assets controlled by the institution as well as the assets entrusted to the institution to ensure that the state-owned assets information is comprehensive and complete.

## 10. The State Council Tariff Commission published a circular on the suspension of tariffs on cars and parts imported from the United States

On December 14, the State Council Tariff Commission published a circular on the suspension of tariffs on cars and parts imported from the United States, which provided the following. First, from January 1, 2019 to March 31, 2019, the 25% tariff levied on 28 products by the *Circular of the State Council Tariff Commission on Imposing Tariff on 50 Billion Dollars Worth of Products Imported from the U.S.* will be temporarily suspended. Second, the 25% tariff on 116 products levied by the *Circular of the State Council Tariff Commission on Imposing Tariff on 16 Billion Dollars Worth of Products Imported from the U.S.*

will be temporarily suspended. Third, the 5% tariff on 67 products levied by the *Circular of the State Council Tariff Commission on Imposing Tariff on 60 Billion Dollars Worth of Products Imported from the U.S.* will be temporarily suspended.

## 11. MOF published a circular on the continued implementation of the personal income tax policy for Mainland-Hong Kong mutual recognition of funds

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On December 17, MOF published a circular on the continued implementation of the personal income tax policy for Mainland-Hong Kong mutual recognition of funds, which provided the following. From December 18, 2018 to December 4, 2019, the income obtained by Mainland individual investors from the difference between the purchase and sales price of Hong Kong fund shares under the Mainland-Hong Kong mutual recognition of funds will continue to be exempted from personal income tax.

## 12. MOF published a circular on the preferential tax policies for poverty alleviation through relocation

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On December 18, MOF published a circular on the preferential tax policies for poverty alleviation through relocation, which provided the following. First, the tax policy on the relocation of poor people for poverty alleviation. The housing construction subsidies, reclamation reward funds and other

monetary compensation as well as resettlement housing obtained by the relocated poor people are exempted from personal income tax; the resettlement housing acquired by the poor people in accordance with regulations is exempted from deed tax. Second, the tax policy on resettlement housing for poverty alleviation through relocation. The land for construction of resettlement housing for poverty alleviation through relocation is exempted from deed tax and stamp duty; in the process of the construction and distribution of resettlement housing, the payable stamp duty of project implementation entity and project unit shall be exempted; the land for resettlement housing shall be exempted from urban land use tax; if resettlement housing is constructed as part of the commercial housing development project, the deed tax and urban land use tax related to resettlement housing as well as the relevant stamp duty of project implementation entity and project unit will be exempted in proportion to the construction area of resettlement housing as a percentage of total construction area; if the project implementation entity purchases commercial housing or buys back affordable housing for the use as resettlement housing, deed tax and stamp duty shall be exempted. Third, other related matters. The information regarding the relocation project, the principal project implementation entity, the relocated poor people and the resettlement housing will be determined by the competent department in charge of poverty alleviation through relocation. The competent department of county-level shall provide the above information to the taxation department at the same level in time; the implementation period of this circular is from January

1, 2018 to December 31, 2020. Taxes collected since the date of implementation may be refunded, except for the stamp duty paid by decals.

### **13. MOF published a circular on the second batch of additional central-to-local equalization transfer payments in 2018**

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On December 18, MOF published a circular on the second batch of additional central-to-local equalization transfer payments in 2018, which provided the following. First, in accordance with the annual budget approved by the 13th National People's Congress, the second batch of additional equalization transfer payments in 2018 (excluding items separately administered by specific measures) are disbursed to the relevant provinces (autonomous regions and municipalities). Second, in accordance with the requirements of the Budget Law of the People's Republic of China, the equalization transfer payments are required to be timely disbursed to local governments.

### **14. MOF published a circular on the disbursement of the third batch of central-to-local equalization transfer payments in 2018**

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On December 24, MOF published a circular on the disbursement of the third batch of central-to-local equalization transfer payments in 2018, which provided the following. First, according to the annual budget approved by the 13th National People's Congress, the

third batch of equalization transfer payments in 2018 (excluding those governed by separate rules) is disbursed to the relevant provinces (autonomous regions and municipalities). This subsidy is included in the "1100202 Equalization Transfer Payment Income". Second, in accordance with the requirements of the *Budget Law of the People's Republic of China*, the equalization transfer payment will be timely disbursed to local governments.

The funds will be principally used to finance the basic public services and other expenditures, improve people's livelihood, help fight against poverty, and promote social harmony.

### **15. The Tariff Commission of the State Council published a circular on the plan of adjusting the provisional tariff rate for imports and exports in 2019**

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On December 24, the Tariff Commission of the State Council published a circular on the plan of adjusting the provisional tariff rate for imports and exports in 2019, which provided the following. (1) Adjusting the import tariff rate. (i) MFN tariff rate. Starting from January 1, 2019, the provisional import tariff rate for 706 items will be implemented; starting from July 1, 2019, the provisional import tariff rate for 14 IT products will be removed, and the application scope of one provisional import tariff rate will be narrowed. The MFN tariff rate for IT products on the appended list of the *Amendment to Tariff Concession Schedule of the Accession of the People's Republic of China to the World Trade Organization* will be cut for the fourth time starting from July 1, 2019. (ii)

Tariff-rate quota. Continue to implement tariff quota for eight categories of commodities such as wheat, with the tariff rate remaining unchanged. The tariff rate of three chemical fertilizers of urea, compound fertilizer and ammonium hydrogen phosphate will continue to be 1%. Continue to impose a sliding tax on a certain amount of cotton imported beyond the quota and make adjustments where appropriate. (iii) Agreed tariff rate. According to the trade or tariff concession agreement signed by China and relevant countries or regions, except for the agreed tariff rate reduction plan approved by the State Council, starting January 1, 2019, China's agreed tariff rate with New Zealand, Peru, Costa Rica, Switzerland, Iceland, South Korea, Australia, Georgia and the Asia-Pacific Trade Agreement countries will be further reduced. According to the goods trade agreement between the Mainland and Hong Kong and Macao on the *Arrangement of Establishing Closer Economic Partnership*, from the date of the implementation of the agreement, except for the products to which the Mainland has made special promise in the relevant international agreements, zero tariff will be fully implemented for the products originating from Hong Kong and Macao. When the MFN rate is lower than or equal to the agreed rate, the provisions of relevant agreements should be implemented. (iv) Preferential tax rate. According to the Asia-Pacific Trade Agreement, the preferential tariff rate under the Asia-Pacific Trade Agreement is further reduced. (2) Export tariff rate. Starting from January 1, 2019, continue to impose export tariffs on 108 export commodities such as ferrochrome or impose provisional tax rate on exports. The tariff

rate will remain unchanged, and 94 provisional tariff rates on exports will be removed. Unless otherwise specified, the afore-mentioned plan shall be implemented starting from January 1, 2019.

## II. Facts & Figures

### 1. China's PMI in November

The data published by the National Bureau of Statistics (NBS) on November 30 showed that China's PMI in November was 50.0%, down by 0.2 percentage point month on month; non-manufacturing business activity index was 53.4%, down by 0.5 percentage point month on month; the composite PMI output index was 52.8%, down by 0.3 percentage point month on month.

### 2. China's CPI rose by 2.2% year on year in November

The data released by NBS on December 9 showed that China's CPI rose by 2.2% year on year in November, among which, CPI rose by 2.2% year on year in both urban and rural areas; went up by 2.5% year on year for food and went up by 2.1% year on year for non-food; increased by 2.2% year on year for consumer goods and increased by 2.1% year on year for services. In month-on-month terms, CPI fell

by 0.3%, among which, CPI went down by 0.4% in urban areas and down by 0.3% in rural areas; fell by 1.2% for food and 0.1% for non-food; decreased by 0.5% for consumer goods and 0.2% for services. From January to November, CPI rose by 2.1% year on year on average.

### **3. China's PPI rose by 2.7% year on year in November**

The data released by NBS on December 9 showed that China's PPI in November rose by 2.7% year on year, and down by 0.2% month on month. IPI rose by 3.3% year on year, or stayed flat month on month. From January to November, PPI rose by 3.8% year on year, and IPI rose by 4.4%.

### **4. China's innovation index in 2017 rose by 6.8% year on year**

The data released by NBS on December 12 showed that China's innovation index in 2017 was 196.3, up by 6.8% year on year. Specifically, the innovation environment index, innovation input index, innovation output index and innovation effectiveness index reached 203.6, 182.8, 236.5 and 162.2 respectively, up by 10.4%, 6.2%, 5.9% and 4.8% year on year respectively.

### **5. China's fixed asset investment (excluding rural households) increased by 5.9% year**

### **on year from January to November**

China's fixed asset investment (excluding rural households) totaled 60.9267 trillion RMB in the first 11 months of 2018, up by 5.9% year on year, registering an increase of 0.2 percentage point over the growth rate in the first 10 months. In terms of month-on-month growth, fixed asset investment (excluding rural households) rose by 0.46% in November. Among them, the private fixed asset investment totaled 37.8432 trillion RMB, up by 8.7% year on year.

### **6. China's retail sales of consumer goods went up by 8.1% in November**

Retail sales of consumer goods in November totaled 3.526 trillion RMB, up by 8.1% year on year in nominal terms (or 5.8% after adjusting for price factors). Among them, the retail sales of enterprises or units above the designated size were 1.3679 trillion RMB, an increase of 2.1%. From January to November 2018, the total retail sales reached 34.5093 trillion RMB, an increase of 9.1% year on year. Among them, the retail sales of enterprises or units above the designated size were 13.083 trillion RMB, an increase of 6.1%.

### **7. China's fiscal revenues and expenditures in November**

The data released by MOF on December 13 showed

that the national general public budget revenue in November was 1.0775 trillion RMB, down by 5.4% year on year. From January to November, the national general public budget revenue was 17.2333 trillion RMB, up by 6.5% year on year. In November, the national general public budget expenditure was 1.6431 trillion RMB, down by 0.8% year on year. From January to November, the national general public budget expenditure was 19.1751 trillion RMB, up by 6.8% year on year, and completed 91.4% of the budget at the beginning of the year. From January to November, the national government fund budget revenue was 6.2151 trillion RMB, up by 26.1% year on year. The national government fund budget expenditure was 6.3825 trillion RMB, up by 38.3% year on year.

## 8. China's real estate development investment increased by 9.7% year on year from January to November

The data released by NBS on December 14 showed that, from January to November, the national real estate development investment was 11.0083 trillion RMB, up by 9.7% year on year. Among them, residential investment was 7.8027 trillion RMB, up by 13.6%. The sales area of commercial housing was 1.48604 billion square meters, an increase of 1.4% year on year. Among them, the sales area of residential buildings increased by 2.1%, the sales area of office buildings decreased by 11.1%, and the sales area of commercial business buildings decreased by 5.1%. Commercial housing sales were 12.9508 trillion RMB, an increase of 12.1%. Among them,

residential building sales increased by 14.8%, office building sales decreased by 6.4%, and commercial business building sales decreased by 0.2%. In November, the real estate development climate index was 101.92, down by 0.03 points from October.

## 9. The value-added of industrial enterprises above the designated size increased by 5.4% year on year in November

The data released by NBS on December 14 showed that in November, the value-added of industrial enterprises above designated size increased by 5.4% year on year and 0.36% month on month. From January to November, the value-added of industrial enterprises above designated size increased by 6.3% year on year. In November, the sales rate of industrial enterprises was 97.6%, down by 0.7% year on year; the export delivery value of industrial enterprises was 1.1833 trillion RMB, a year-on-year increase of 7.6%.

## 10. China's local government bond issuance and outstanding debts in November

The data released by MOF on December 20 showed that 45.9 billion RMB of local government bonds were issued in November, among which, 27 billion RMB were general bonds and 18.9 billion RMB were special bonds; 4.2 billion RMB were new bonds and 41.7 billion RMB were swapped bonds and refinanced bonds. From January to November,

local government cumulatively issued 4.1014 trillion RMB of bonds, among which, 2.1913 trillion RMB were general bonds and 1.9101 trillion RMB were special bonds; 2.1232 trillion RMB were new bonds and 1.9782 trillion RMB were swapped bonds and refinanced bonds. As of the end of November, nationwide outstanding local government debts amounted to 18.2903 trillion RMB, which is within the limit imposed by the National People's Congress. Among them, general debts were 10.8616 trillion RMB, and special debts were 7.4287 trillion RMB; government bonds were 18.0338 trillion RMB, and the stock of government debts that are not in the form of government bond amounted to 256.5 billion RMB.

### 11. China's lottery sales increased by 10.8% year on year in November

The data released by MOF on December 25 showed that nationwide lottery sales in November were 42.717 billion RMB, an increase of 4.163 billion RMB over the same period of last year, and up by 10.8% year on year. The welfare lottery sales were 19.718 billion RMB, an increase of 316 million RMB over the same period of last year, and up by 1.6% year on year. The sports lottery sales were 22.999 billion RMB, an increase of 3.847 billion RMB over the same period of last year, up by 20.1% year on year. From January to November, cumulative lottery sales were 468.447 billion RMB, an increase of 81.46 billion RMB over the same period of last year, and up by 21.0% year on year. Among them, the welfare lottery sales were 203.953 billion RMB, an increase

of 7.626 billion RMB over the same period of last year, up by 3.9% year on year; and sports lottery sales were 264.495 billion RMB, an increase of 73.834 billion RMB over the same period of last year, and up by 38.7% year on year.

### 12. The total profits of industrial enterprises above designated size in China increased by 11.8% year on year from January to November

The data published by NBS on December 27 showed that from January to November, the profits of industrial enterprises above designated size in China totaled 6.11688 trillion RMB, up by 11.8% year on year. By types of ownership, the figure stood at 1.8087 trillion RMB for state-controlled ones, up by 16.1% year on year; 19.15 billion RMB for collectively owned ones, up by 4.6%; 4.31768 trillion RMB for joint-stock ones, up by 15.9%; 1.53868 trillion RMB for foreign and Hong Kong, Macau and Taiwan invested ones, up by 4.2%; and 1.58155 trillion RMB for private ones, up by 10%.

## III . MOF Events

1. On December 3, during his visit to Israel, Assistant Finance Minister Xu Hongcai signed the No. 4 China-Israel Protocol on Financial Cooperation with Rony

Hizkiyahu, the Accountant General of the Ministry of Finance of Israel.

2. On December 7, Vice Finance Minister Zou Jiayi accompanied Vice Premier Hu Chunhua in attending the Sixth China-France High-Level Economic and Financial Dialogue.

3. On December 3, during his visit to Israel, Assistant Finance Minister Xu Hongcai signed the No.4 China-Israel Protocol on Financial Cooperation with Rony Hizkiyahu, the Accountant General of the Ministry of Finance of Israel.

4. From December 13 to 14, Vice Finance Minister Zou Jiayi attended the ASEAN+3 Finance and Central Bank Deputies Meeting held in Busan, Republic of Korea. Before the meeting, Zou Jiayi also attended the Trilateral Finance and Central Bank Deputies Meeting of China, Japan and Republic of Korea.

5. On December 17, Vice Finance Minister Zou Jiayi met with Douglas Flint, UK Treasury's special envoy of financial and professional services cooperation under the Belt and Road Initiative.

## IV. Local Finance

### 1. The Finance Bureau of Guangzhou City, Guangdong Province achieved preliminary

### progress in budget performance management

According to the news released by the Finance Department of Guangdong Province on December 4, Guangzhou City has actively promoted budget performance management reform since it began such exploration in 2004, with a focus on institutional building, target management, performance monitoring, third-party evaluation and information disclosure, so as to integrate performance management into budget preparation, implementation and supervision.

First, improve the management of performance targets at the source. (1) Set key performance indicators and explore the "dashboard" style of target management in light of the departmental responsibilities and core tasks assigned by the central, provincial and municipal authorities. (2) Clarify the levels of targets and establish a three-level target system of "departmental responsibilities, work tasks and project objectives" to ensure that performance targets are effectively transmitted. (3) Increase publicity and fully disclose the performance targets and indicators of pilot departments to improve the quality of departmental performance targets.

Second, strengthen performance monitoring and management. (1) Build the overall monitoring system. Establish a monitoring mechanism based on departmental monitoring and focused on key projects, and implement monitoring of overall departmental expenditures and key

project expenditures simultaneously to improve the relevance and effectiveness of performance monitoring. (2) Combine expenditure progress with tasks, and refine the overall monitoring content. Prevent the performance targets from being deviated and the budget funds from getting off-target and ensure the performance targets are successfully achieved through the dual monitoring of the achievement of performance targets and the progress of expenditures. (3) Form the overall synergy of the monitoring. Combine the self-monitoring of the budget department with the key monitoring of the finance department, and allow the finance department to entrust third-party organizations with the implementation of monitoring.

Third, improve the performance evaluation management mechanism. (1) Underscore people's satisfaction in performance evaluation. Reflect people's satisfaction level of a department's ability to perform its duties and use funds and provide reference for building a people-satisfied government through the satisfaction survey and evaluation. (2) Highlight the objectivity of performance indicators. Among the 11 three-level indicators of fund management, 6 indicators are quantitative indicators, with a score of 74%. And the 5 indicators of fund use are also quantitative indicators. (3) Highlight the whole-process performance management. Indicators dedicated to performance management are set to carry out evaluation of performance management, operation, monitoring and performance evaluation, and reflect the whole process of departmental performance management.

## 2. The Finance Bureau of Jiuquan City, Gansu Province took multiple measures to revive the stock of fiscal funds

According to the news released by the Finance Department of Gansu Province on December 5, as of the end of November, Jiuquan City has recovered 957 million RMB of the stock of funds of which 922 million RMB was already arranged for use. According to the assessment report by the Finance Department of Gansu Province on the expenditure pace, Jiuquan City has been among the top three in the province for three consecutive months and the expenditure pace of the special funds for poverty alleviation has reached more than 90%.

First, improve the institutional development. Formulate and promulgate the *Circular on Further Sorting out and Reviving the Stock of Fiscal Funds to Accelerate the Pace of Fiscal Expenditure*, and prioritize the revitalization of special fiscal funds, accrual-based departmental carryover and surplus funds, and carryover and surplus funds in departmental accounts. Establish a mechanism that links budget execution with budget preparation to lay the foundation for comprehensively carrying out the work of revitalizing existing stock of funds.

Second, refine the budget preparation process. Adjust budget preparation according to the new policy provisions, explore the establishment of departmental and budget unit project pipeline, continuously make budget preparation more scientific and sound, further narrow the gap between budget and final accounts,

and reduce the carryover and surplus funds at the source. Require all departments to consider the surplus of the previous year when preparing budget, implement the multi-year rolling project budget, and eliminate the one-time budgetary arrangement for the projects implemented on yearly basis.

Third, strengthen the allocation of funds. Strictly check the requirements for the approval of funds when handling the approval of program and disbursement of funds so that each fund payment can only be processed when jointly signed by the handler, the head of relevant department and the director. Impose strict time limit on the declaration, approval and disbursement of funds.

### **3. Finance Department of Shanxi Province provided strong fiscal support for carrying out the "beautiful countryside" movement in support of the implementation of rural revitalization strategy**

According to the news released by the Finance Department of Shanxi Province on December 10, Shanxi Finance authorities, with a close focus on the implementation of rural revitalization strategy, have firmly adhered to green development and provided strong fiscal support for carrying out the "beautiful countryside" campaign to promote the development of agriculture and rural areas, reduce poverty and boost the prosperity of farmers, and advance the all-round development of the rural undertakings in the province.

First, continue to increase investment and improve rural infrastructure. In the 2018 pilot project of beautiful countryside, Shanxi Province identified 31 pilot counties (cities and districts) and 144 pilot project villages with a total investment of 4.03 billion RMB. The beautiful countryside project has been extended province-wide and achieved remarkable results.

Second, continuously improve the project funding mechanism. While the Shanxi Provincial Finance authorities have increased the funding for the beautiful countryside project year by year, they have also further refined the process, standardized the procedures, and conscientiously organized the project, in order to ensure fair and just distribution of fiscal funds, accelerate the timely and effective use of fiscal funds for agriculture and stimulate the enthusiasm of various localities.

Third, strengthen the integration between poverty alleviation, industrial development and the increase of farmers' income. Focus on building central villages with industrial base and tourism resources, actively guide capable enterprises to invest in the development of beautiful countryside, develop leisure agriculture and smart agriculture, strengthen the village-level collective economy, and promote the increase of farmers' income.

Fourth, the consolidation of funds at the county-level has been continuously enhanced. In the past few years, the province has consolidated 2.3 billion RMB of various types of agriculture-related funds for the development of beautiful countryside and attracted 12

billion RMB of private capital investment, effectively enhancing and amplifying the efficiency of the use of fiscal funds.

#### **4. Finance authorities of Ganzhou City, Jiangxi Province provided three types of credits to effectively address the financing difficulties of enterprises**

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According to the news released by the Finance Department of Jiangxi Province on December 12, since 2013, Ganzhou City has provided unsecured, uncollateralized and low-interest credit for business startups, small and micro enterprises and industrial parks, offering complete financing services for the development of enterprises from the initial stage to the growth process.

(1) Credit to industrial parks: financial arrangement between government and banks to help enterprises in pilot industrial parks to apply for less than 5 million RMB of loans with less than one year of maturity. The loan interest rate is based on the benchmark interest rate of bank loans for the same period, and the maximum markup is no more than 30%. The borrowing enterprise does not need to provide collateral and guarantee. In September 2015, the scope of this kind of credit was extended to enterprises outside the industrial park, and the maximum loan amount was raised to 10 million RMB.

(2) Credit to small and micro enterprises: the city and county finance authorities shall raise funds at a ratio

of 1:1, and the funds are deposited into cooperating banks as the guarantee against the risks of small and micro enterprises. With a multiplier of no less than 8 times, the cooperating bank shall offer one-year and no more than 2 million RMB of loans to small and micro enterprises. The borrowing enterprise does not need to provide collateral or guarantee, and only need to provide a guarantee contract signed by all the shareholders of the enterprise and with unlimited liability for the loans borne by personal property. In January 2017, the maximum loan amount of such kind of credit was raised to 4 million RMB.

(3) Credit to business startups: the city and county finance authorities shall raise funds at a ratio of 1:1, and the funds are deposited into cooperating banks as the guarantee against the risks of enterprises. With a multiplier of no less than 5 times, the cooperating bank shall offer one-year and no more than 500,000 RMB of loans to business startups established and registered locally for less than 2 years by college graduates, veterans, graduates of Ganzhou Entrepreneurship University, returning migrant workers, and professional and technical personnel of universities and research institutes. In January 2017, the maximum loan amount of such kind of credit was raised to 1 million RMB.

#### **5. Finance Bureau of Tongchuan City, Shaanxi Province provided full support to poverty alleviation in the city**

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According to the news released by the Finance

Department of Shaanxi Province on December 13, the Finance Bureau of Tongchuan City has earnestly implemented the city's requirements of poverty alleviation work, given full play to the role of fiscal functions, and strengthened fund supervision. As a result, notable outcomes have been achieved in poverty alleviation.

First, make multiple efforts to strengthen input. In the budget at the beginning of the year, ensure sufficient special fiscal funds for poverty alleviation so as to support the poverty alleviation of poor region and poor villages, improve the quality of poverty alleviation, and consolidate the results of poverty alleviation.

Second, speed up disbursement and improve the efficiency of fund use. Provide a "green channel" to speed up the disbursement of special fiscal funds for poverty alleviation, speed up the disbursement of funds, improve the efficiency of fund use and eliminate the phenomenon of "projects waiting for funds".

Third, keep problem-oriented and enhance accountability for supervision. Formulate the Plan for the Special Supervision of Tongchuan City's Poverty Alleviation Fund Management, set up a supervision and inspection team for rectification of problems, and conduct regular and ad-hoc inspections on the rectification of problems, fund investment, budget execution and management of fund use in various districts and counties, so as to ensure timely rectification of identified problems within a deadline. Steadily promote the dynamic monitoring of fiscal funds for poverty alleviation

and include all the 42 poverty alleviation funds from the central government, 36 such funds from the provincial government, and 26 such funds from the city government into the dynamic monitoring system to achieve monitoring of processes and prevent the idling or deviation of poverty alleviation funds.

Fourth, strengthen training and strictly adhere to the basic poverty alleviation policies. Organize training on the consolidation of agriculture-related funds, guide all districts and counties to prepare the implementation plan for the consolidation of agriculture-related funds, and ensure no less than 5 million RMB per village of consolidated project funds in the 7 extremely poor villages; ensure no less than 60% of consolidated central and provincial funds for industrial investment.

Fifth, develop innovative ways to improve the ability to fight against poverty. Give full play to the catalytic role of fiscal funds, and mobilize more financial and private capital to participate in poverty alleviation. Establish a Tongchuan model of poverty alleviation through industrial development, deploy platforms such as micro subsidized loans for poverty alleviation, agricultural credit financing guarantees and industrial fund for poverty alleviation to support the business development of the city's documented poor households and support the leading enterprises in the city.

## **6. Finance authorities of Heze City, Shandong Province focused on five**

## aspects to develop innovative approach to public resource allocation

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According to the news released by the Finance Department of Shandong Province on December 18, Heze City, since 2013, has upheld the decisive role of the market in resource allocation and explored the establishment of five mechanisms featuring catalogue, project, budget, operation and supervision, in order to improve the allocation system and make the allocation of public resources more scientific and effective.

First, design a comprehensive catalogue. It designed a catalogue of 746 public resource items under 10 income and expenditure categories. With this catalogue in place and through sorting and verification, 418 public resource items under 9 categories, 11 public resource allocation markets, and 11 regulatory entities were identified.

Second, implement a comprehensive pipeline. It established a public resource project pipeline. Since the reform, 6,900 projects in the city were included in the pipeline. The catalogue on government purchase of services was published and PPP model was promoted to change the single way of direct government supply.

Third, promote coordination. It established a budget system for public resource allocation and carried out unified collection, payment and supervision of income and expenditure derived from public resource allocation according to the results of budget execution

and market allocation.

Fourth, implement a sound operational mechanism. It established an electronic platform for public service delivery and administrative supervision of public resource allocation, improved the basic rules and sectoral operational guidelines for public resource allocation, and refined the methods for fiscal investment, users pay, franchise, PPP and purchase of services.

Fifth, implement a rigorous supervisory mechanism. It established a coordinated supervisory mechanism led by the finance department and involved by relevant departments, with the development and reform department responsible for the overall management of public resource transactions and the regulatory, audit and supervisory departments performing their respective supervisory duties according to law.

## 7. The Finance Bureau of Bortala Prefecture, Xinjiang Uygur Autonomous Region worked hard to ensure the realization of annual fiscal targets

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According to the news released by the Finance Department of Xinjiang Uygur Autonomous Region on December 24, in 2018, the Finance Bureau of Bortala Prefecture of Xinjiang Uygur Autonomous Region, with a focus on improving the quality and efficiency of development, has given full play to its fiscal functions and promoted the high-quality development of economy.

First, effectively reduce taxes and fees for enterprises. Comprehensively implement preferential policies such as the "business tax to VAT" reform and cut and exemption of taxes, and accelerate the "streamlining of administration, delegating powers and improving services". So far, the prefecture has reduced 135 million RMB of fees and 558 million RMB of taxes, bringing full benefits of tax and fee cut to enterprises. Second, vigorously support financial development. Improve the financial cooperation model, strengthen the construction of a government financing guarantee system, provide loans of 542 million RMB to enterprises and farmers, and address the financing difficulties of small and micro enterprises as well as farmers and rural areas. Increase support for the development of financial inclusion, and allocate 24.25 million RMB to provide subsidies and incentivize financial institutions in providing agricultural loans and business startup guarantee loans.

Third, support the development of enterprises. Secure a total of 94.67 million RMB of special fiscal funds to support the capacity building of SMEs, expand employment, improve the service environment, and guide enterprises to increase independent innovation and enhance the development momentum.

Fourth, vigorously support the development of the core area of the Silk Road Economic Belt. In this year, a total of 870 million RMB of funds have been invested into the construction of urban infrastructure, ecological greening projects and public service facilities. As a result, the comprehensive service capacity was significantly enhanced and the economic

strength was greatly improved. From January to October, the general public budget revenue of Alashankou City was 480 million RMB, an increase of 68%.

Fifth, vigorously support the implementation of the rural revitalization strategy. Increase financial input, establish and improve the funding system for implementing the rural revitalization strategy, and offer more public financial resources to agriculture, rural areas and farmers. From January to October, the expenditure on agriculture, forestry and water was 973 million RMB, an increase of 14.3%. Investment in township sewage and garbage treatment facilities was also increased.

Sixth, promote the development of tourism industry. It invested 1.05 billion RMB into the tourism development fund of Sayram Lake to improve the infrastructure of this scenic spot. 1.854 million RMB of tourism industry development incentive funds was invested to improve tourism service capabilities. 4.4 million RMB of special funds for tourism development was secured to improve rural tourism infrastructure. 27.71 million RMB was invested in the flight routes and three new routes were opened, which further promoted the development of Bortala's economy, tourism and transport.

Seventh, strictly enhance accountability and improve the quality of fiscal revenues. Strengthen tax collection and management, enhance coordination and communication between revenue authorities, administer taxation according to law, and strive to

achieve the annual fiscal targets.

## 8. The Finance Bureau of Wuxi City, Jiangsu Province orderly pushed forward the Financial and Economic Big Data Platform Project

According to the news released by the Finance Bureau of Wuxi City, Jiangsu Province on December 25, the Financial and Economic Big Data Platform Project is proceeding in an orderly manner. The Information Affairs Division, together with the Treasury Division and the Budget Division, are actively promoting the research and development of this project.

First, improve research on demand, enhance coordination and consolidate the basic work. The Information Affairs Division, the Treasury Division and the Budget Division have worked with a software company to conduct three rounds of research on business demands. In light of the current work of the Treasury Division and the Budget Division, in particular their work of revenue analysis, fiscal expenditure monitoring, budget review and decision-making, thorough research was carried out on the demand of functional modules such as fiscal revenue analysis, fiscal expenditure analysis, and macroeconomic analysis.

Second, use multiple channels to enhance organization and coordination and improve data sources. The Treasury Division went to local Taxation Bureau to investigate the relevant data

after the upgrade of the Golden Tax System, and went to the Economic and Information Committee to investigate the relevant industry standards of industrial enterprises in the city. The Information Division analyzed the functions and data of the city's tax protection platform, and demonstrated the feasibility of the Wuxi City Big Data Center in undertaking the functions of the city's tax protection platform and serving as the data source of the economic and financial big data platform.

At the same time, it established a working mechanism, clarified the positioning, improved data analysis, demonstrated real results, improved consensus, and maintained control over the progress of the project.

## V. Remarks & Opinions

### 1. Lou Jiwei: "America First" is unsustainable and further tariffs would result in greater marginal loss for the U.S.

At the 9th Caixin Summit with the theme of "Global Challenges, Global Solutions" held on November 18, Lou Jiwei, Chairman of the National Council for Social Security Fund, Member of the CPPCC Standing Committee and Head of the CPPCC Foreign Affairs Committee, said that the downward pressure on the global economy induced by trade war and

unilateralism will be transmitted to China and the U.S.. The U.S. will likely remain competitive in the process of globalization, but it is impossible for the "America First" to sustain.

First, the global economic situation and China-U.S. trade frictions.

The rise of populism and anti-globalization, especially in the most powerful developed countries, bodes ominously for the global economy in the short-term, and may trigger a new round of crisis if not handled properly.

Unlike the inaction of the U.S. government during the global financial crisis in 2008, the U.S. government is now taking the initiative to counter the historical trend. The big brother in the past is now holding high the banner of "America First", which makes people worry about the prospects of global economic development, especially the impact of China-U.S. trade frictions.

The interest rate hike of the Federal Reserve, the U.S. unilateralist policy, the slowdown of global trade activities, the capital outflows and underemployment in commodity-exporting countries, the undesirable progress or even rollback of structural reforms in European countries, and the spillovers of trade war on developed economies in East Asia have all increased the uncertainty and vulnerability of the global economy. The consensus on enhancing cooperation on financial supervision and advancing structural reforms reached at the G20 finance track

meeting in 2016 as well as the quantitative standards and assessment mechanisms proposed by China for structural reforms have also been disrupted by the U.S. unilateralist policies.

Second, "America first" is unsustainable.

"America First" is impossible to sustain, if not the first to fall, but it is doubtful that an increasingly closed U.S. will be able to maintain its competitive edge.

Unlike the Soviet Union whose economic system is not connected with the world, China's economy has integrated into the world, especially into the U.S., Europe, Japan, and other developing countries, and cannot be unraveled. The split between China and the U.S. will cast a shadow over the world. Both sides need to talk sooner or later. The end of the mid-term election will not bring about real change, but negotiations will be started.

On the issue of tariffs, "America First" cannot sustain. At present, the Trump administration has imposed a 25% tariff on Chinese products worth of 50 billion and 200 billion dollars respectively. The U.S. still has room to impose tariffs on Chinese products worth of 250 billion dollars. When it comes to the 200 billion dollars of products on which tariffs were already imposed, the marginal loss is small for U.S. and big for China, but for the 250 billion dollars of products to be subject to tariffs, the marginal loss will be big for U.S. and small for China.

Third, the impact of the China-U.S. trade war on the

Chinese economy.

The U.S. unilateralist policy will only lengthen the bottom part of the L-shaped curve of the Chinese economy. It will constrain economic growth and increase uncertainty. However, the Chinese economy will maintain a medium-to-high growth rate of 6.5% or 6%. Foreign-funded enterprises and private enterprises are the most affected, which together account for more than 80% of the trade. In the face of this shock, we should follow the instructions of General Secretary Xi Jinping at the Private Enterprise Symposium on November 1 and treat all market entities equally.

After 40 years of reform and opening-up, China has more favorable conditions on its side, but it is still progressing slowly in breaking the urban-rural dual structure in labor and land and in establishing a system where fiscal powers and expenditure responsibilities are compatible, an efficient financial system with controllable risks, and a fair and sustainable social security system. In light of these fundamental and institutionalized deep-seated problems, it is not advisable to respond by unleashing large-scale infrastructure spending, instead, we must take the right medicine to address the root problems and use reforms to stimulate the internal vitality.

Lou Jiwei said that the future is still optimistic. Internally, China's economic resilience determines its ability to withstand external pressure. Externally, there are structural conflicts between the interests of China and the U.S.. However, since they are all major countries that are fully integrated into the global

economy, the consequences of the split would be even more serious. It is believed that the two sides will eventually solve the problem in a responsible way, but the key is that the U.S. must abandon its unilateralist policy.

## **2. Liu Kun: comprehensively promote the modernization of the governance system and capacity of state-owned financial institutions**

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On December 10, the 2018 training program for board directors and senior executives of the state-owned enterprises under MOF was launched in Beijing. Liu Kun, Party Secretary and Minister of MOF, attended the opening ceremony and delivered a speech. With the Xi Jinping thought on socialism with Chinese characteristics for a new era as guide, the training program aims to implement the major decisions of the Party Central Committee and the State Council on improving the management of state-owned financial capital, strengthen the "four consciousnesses", take the initiative to fulfill the responsibilities of investors and the duties of board directors, strengthen the capability of board directors for discharging their duties, and comprehensively promote the modernization of the governance system and capacity of state-owned financial institutions.

Liu Kun pointed out that Party Central Committee assigns to the finance authorities the task of centrally and uniformly fulfilling the responsibility as state-owned financial capital investor. This not only

reflects the trust in the finance authorities, but also places heavy responsibilities on them. Sending board directors to state-owned financial institutions is an important part of carrying out state-owned financial capital management and realizing the preservation and appreciation of state-owned assets, which is also essential for improving corporate governance of state-owned financial institutions. It is thus imperative to profoundly understand the importance of the board director system.

Liu Kun emphasized that the finance authorities should improve the management system of board directors, strengthen the substantive management, and require the board directors to strictly implement their duties in five aspects of corporate governance: decision-making, process control, supervision, information and advisory guidance. It is necessary to improve the supervision and accountability mechanism, and seriously deal with negligence and dereliction of duty. Board directors must improve their political awareness, take a firm stance, keep the overall picture in mind, stay loyal, clean and responsible, continuously improve the ability to perform their duties, and earnestly perform their duties.

### 3. Liu Kun: take MOF's work on cyberspace affairs to a new level

On December 11, MOF held the Meeting of the Leading Group on Cyberspace Affairs to convey the spirit of the important speech of General Secretary

Xi Jinping on cyberspace affairs, review the *Measures for the Administration of Cyberspace Affairs of the Ministry of Finance*, and Listen to the report on the cyber security work of MOF. Liu Kun, Party Secretary and Minister of the Ministry of Finance as well as the Head of the MOF's Leading Group on Cyberspace Affairs attended the meeting and made a speech.

Liu Kun pointed out that as public finance is the foundation and an important pillar of state governance, there is urgent need to deploy information technology to promote the development of modern fiscal system and enhance the capacity of fiscal governance. The efforts to accelerate the work on cyberspace affairs is a conscious action to implement the strategy of strengthening the nation through internet, an important means to promote the modernization of the fiscal governance system and governance capacity, and an important support for better enabling public finance to serve as the foundation and an important pillar of state governance. In recent years, the management and reform of cyberspace affairs at the service of public finance have shown effects, the integration of information system and sharing of information resources have made major progress, the level of government-funded public services has been effectively improved, and the cyber security has been significantly enhanced.

Liu Kun called on MOF to thoroughly study General Secretary Xi Jinping's important speech, align thoughts and actions to the spirit of speech, put wisdom and efforts into the implementation

of the decisions and requirements of the Party Central Committee, further deepen understanding and consider the overall context, comprehensively analyze the new situation and new requirements faced by MOF's cyberspace affairs, and further improve the planning and design; vigorously promote the centralized deployment of information systems, and support the vertical and horizontal management of fiscal budget and treasury; actively carry out the application of fiscal big data, and promote the shift of the focus of MOF's cyberspace affairs from "process as the main line" to "data as the core"; thoroughly implement the overall concept on national security, continuously strengthen MOF's cyber security, and enhance the awareness of cyber security and accountability.

Liu Kun stressed that all departments and bureaus should attach great importance to the work of cyberspace affairs. High-ranking cadres should take the lead, incorporate this into work plan and agenda, strictly enhance cyber security accountability, and earnestly carry out MOF's work of cyberspace affairs in the new era, in order to take MOF's work of cyberspace affairs to a new level.

#### **4. Liu Kun: the implementation of the special additional deduction policy is the biggest highlight and the most difficult area of personal income tax reform**

On December 24, entrusted by the State Council, Finance Minister Liu Kun made a report to the Standing

Committee of the National People's Congress on the special deduction of personal income tax.

Minister Liu Kun said that the establishment of a comprehensive-categorized personal income tax system is an unprecedented tax reform in China as well as an important tax reduction move. The implementation of the special additional deduction policy is the biggest highlight and the most difficult area of personal income tax reform. It is of great significance for improving the income distribution system, better protecting and improving people's livelihood, and stimulating residents' consumption potential. On August 31 this year, the Fifth Session of the Standing Committee of the 13th National People's Congress passed the newly revised *Individual Income Tax Law of the People's Republic of China*. Article 6 of the new *Individual Income Tax Law states*: the specific scope, standards and steps for implementing the special additional deductions of expenditures such as children's education, continuing education, medical treatment of serious disease, housing loan interests or housing rent and elderly care, shall be determined by the State Council and reported to the Standing Committee of the National People's Congress for record-keeping.

MOF and the State Administration of Taxation, together with the relevant departments, conducted in-depth research on the issues related to special deductions and drafted the *Interim Measures for Special Deduction of Personal Income Taxes (Draft for Comment)*. On October 18, MOF and the State Administration of Taxation sought advices and

comments from the relevant departments of the State Council and the people's governments of all provinces, autonomous regions and municipalities; from October 20 to November 4, comments are sought from the general public. MOF and the State Administration of Taxation, together with the relevant departments, conducted a review of the comments. Reasonable comments were absorbed and adopted as much as possible, including: on children's education, technical education is included into the scope of deduction; on continuing education, the period of deductible continuing education is limited to no more than 4 years; on medical treatment for serious

disease, the medical expenses incurred by taxpayers are allowed to be deducted by themselves or their spouses, and the medical expenses of their underage children can be deducted by either parent and the deduction limit is increased from 60,000 RMB to 80,000 RMB; on housing loan interest, the measures for deducting housing loan interest for the purchase of the first home by the couple before marriage are clarified; on housing rent, the housing rent deduction standard is appropriately raised. Some comments that are not operable for the time being will also serve as a direction for future improvement.

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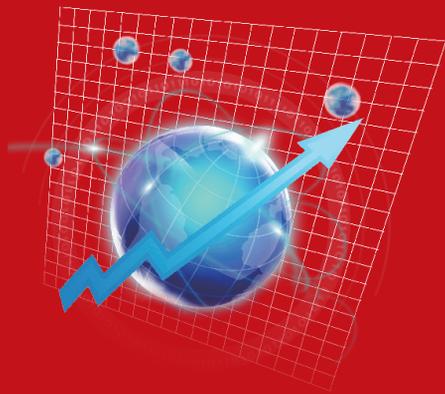
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