

## Further breakthrough in Shanghai FTZ

### Contacts

#### China

Martin Ng  
Managing Partner  
[martin.ng@wts.cn](mailto:martin.ng@wts.cn)  
+ 86 21 5047 8665 ext.202

Conrad Lin  
Manager  
[conrad.lin@wts.cn](mailto:conrad.lin@wts.cn)  
+ 86 21 5047 8665 ext.223

Gloria Zhu  
Consultant  
[gloria.zhu@wts.cn](mailto:gloria.zhu@wts.cn)  
+ 86 21 5047 8665 ext.219

#### In brief

- » China's State Council announced a new special economic area in July 2019, in Shanghai Pilot Free Trade Zone (FTZ), called Lin-gang New Area.
- » Shanghai laid out in two sets of regulations the administration and incentive details in August and September 2019.
- » Shortly since its inauguration, Lin-gang has already produced an eye-catching result in attracting foreign investments, including Tesla's mega factory for Model 3 and Model Y.

Feedback

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## 2020 (No. 01 issue)

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### In Detail

On 27 July 2019, China State Council issued the “Overall Plan for Lin-gang New Area, Shanghai Pilot Free Trade Zone of China” (hereafter as “Overall Plan”), announcing the inception and the development blueprints for Lin-gang New Area.

On 12 August 2019, Shanghai has released its “Measures for the Administration of Lin-gang New Area, Shanghai Pilot Free Trade Zone of China”, clarifying the general management and incentive measures for Lin-gang.

Later on 1 September 2019, Shanghai issued another policy, “Several Opinions on the Supportive Policy to Promote the High-quality Development of Lin-gang New Area”. This policy has further provided details on preferential treatments of practical matters.

Below in a nutshell, we explain what Lin-gang can offer:

#### » Investment

- 1) Limitations on capital and investments will be loosened in such key industries as telecom, insurance, securities, technical services, education and medicals, etc. Entrepot business is allowed.
- 2) Incentive funds will be established to support key innovation projects and personnel, granted on a case-by-case basis.
- 3) Enterprise establishment formalities are also simplified. Business licenses will be issued as soon as the documents are ready (approval procedure is removed).
- 4) A crediting system will be instigated, and credits will be a key factor for enterprises to enjoy beneficial treatments.
- 5) Overseas arbitration institutes, with proper registration, are welcome to conduct arbitration business in Lin-gang.
- 6) Lin-gang will also promote digital trading, cross-border e-commerce, and servicing in technology intensive industries such as cultural services, IT, medical, etc.
- 7) Intellectual property protection will be enhanced and approval will be accelerated for patent application in bio-medical, integrated circuits, artificial intelligence areas.

#### » Finance

- 1) Finance industry will be further opened up with loosened requirements on shareholding and business scope of financial institutes with overseas investors.
- 2) Financial institutes are encouraged to provide cross-border financing, investment and cash management services to the entities and non-residents in Lin-gang. Qualified institutes can also operate cross-border services such as securities and insurance asset management.
- 3) Funds raised from overseas by the enterprises or financial institutes in Lin-gang can be freely used for investments in Lin-gang or overseas.
- 4) Procedures for cross-border RMB transactions will be simplified. Free flow and exchange of capitals in and out of Lin-gang will be explored.

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### » Trading

- 1) A comprehensive bonded-zone in Lin-gang will be established. The requirements on management, approval and procedures for this zone will be loosened. Shipments bound for and arrived from overseas will be subject to less customs formalities.
- 2) International transporting carried out by vessels manufactured within China and registered in China Yangshan Port is treated as export and entitled to export tax refund.
- 3) Servicing related to transportation in Lin-gang is opened to both local and foreign investors. Shipment data will be shared amongst the Yangshan port, Pudong international airport and Lucaogang railroad transportation center for a synergized multimodal transportation.

### » Tax

- 1) Corporate Income Tax (CIT) preferential treatment

A preferential CIT rate at 15% for five years will be granted to qualified companies in the following industries:

- Integrated circuit
- Artificial intelligence
- Bio-medicine
- Civil aviation

The “two-year full-rated exemption and three-year half-rated reduction” and “five-year full-rated exemption and five-year half-rated reduction”<sup>1</sup> CIT holidays are still applicable to qualified companies in manufacturing and designing of integrated circuits and software.

- 2) Individual Income Tax (IIT) subsidy

IIT subsidy will be available to high-end foreign employees working in Lin-gang (details will be released).

- 3) Special customs duty treatment

Goods sold across and within the partitioned zone can enjoy special customs duty treatments (e.g. bonded treatment). Details are to be released.

- 4) Preferential VAT treatment

More preferential VAT treatments will be offered to services provided to overseas customers (details will be released).

Other tax policies, such as taxation on free trade accounts, tax regime for overseas investment and offshore business, are also in the pipeline but to be further clarified.

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<sup>1</sup> “Two-year full-rated exemption and three-year half-rated reduction” means the CIT of the qualified companies is exempted in the first two years since their profitability, and only 50% of the standard 25% CIT rate is levied for the three years thereafter.

“Five-year full-rated exemption and five-year half-rated reduction” means the CIT of the qualified companies is exempted in the first five years since their profitability, and only 50% of the standard 25% CIT rate is levied for the five years thereafter.

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### » Human Resources

- 1) Employment permitting and immigration requirements will be eased to overseas personnel employed in, or travelling to Lin-gang. Personnel with overseas qualification in finance, architecture, planning and designing can provide services in Lin-gang upon proper registration.
- 2) A two-year work permit can be granted to expatriates in the high-tech industry, highly skilled expatriates or expatriates employed by the enterprises favored by Lin-gang, with less stringent requirement on age, education and work experience.
- 3) Expatriates are allowed to enroll in China's professional qualification examinations, except in the areas related to state security or sovereignty.
- 4) Preferential treatments will be given to domestic personnel in the aspects such as residence registration and house purchasing.

### WTS observation

Lin-gang, though located in Pudong FTZ of Shanghai, is positioned as a flagship special area for further economic openness and reform. The central and Shanghai government's announcements have put forward concerted high-level guidelines on the development and cultivation of Lin-gang in investment, finance, trading, tax and human resources to attract investments and talents. More policies are expected to be released in details.

WTS

China Contact

Martin Ng  
Managing Partner  
[martin.ng@wts.cn](mailto:martin.ng@wts.cn)  
+ 86 21 5047 8665 ext.202



Germany Contact

Ralf Dietzel  
Partner  
[ralf.dietzel@wts.de](mailto:ralf.dietzel@wts.de)  
+49 (0) 89 28646 1745



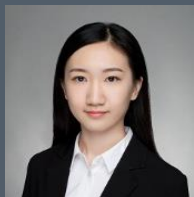
Conrad Lin  
Manager  
[conrad.lin@wts.cn](mailto:conrad.lin@wts.cn)  
+ 86 21 5047 8665 ext.223



Xiaolun Heijenga  
Partner  
[xiaolun.heijenga@wts.de](mailto:xiaolun.heijenga@wts.de)  
+ 49-69-1338 456 320



Gloria Zhu  
Consultant  
[gloria.zhu@wts.cn](mailto:gloria.zhu@wts.cn)  
+ 86 21 5047 8665 ext.219



WTS China Co., Ltd.  
Unit 031,29F, Hang Seng Bank Tower ,No.1000 Lujiazui Ring Road,  
Pudong New Area, Shanghai, 200120 PRC  
T: +86 21 5047 8665  
F: +86 21 3882 1211  
[www.wts.cn](http://www.wts.cn)  
[info@wts.cn](mailto:info@wts.cn)



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