



CPC's Third Plenary Session Heralds New Directions for China Economy

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Key Takeaways From the 20th Central Committee's Third Plenary Session, Beijing, July 15–18, 2024

The recent CPC plenary session reviewed and approved the Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization (hereinafter referred to as the Resolution). Several key developments resulted from the session that impact overall direction for the China economy.

The session reaffirmed the dominant role of the public ownership sector in China's economy, emphasizing the need to strengthen, optimize and expand state-owned capital and enterprises, while also unwaveringly encouraging, supporting and guiding the development of the private sector.

Various foreign investment encouragement policies continued to be implemented, including national treatment for foreign investments and further market opening. Overall, there was a stronger emphasis on market fairness and the construction of a unified national market, ensuring equal participation in market competition for all forms of ownership.

Strategic industries were listed to develop new-quality productive forces, including next-generation information technology, artificial intelligence, aerospace, new energy, new materials, high-end equipment, biomedicine, quantum technology, etc., and guiding production factors and various types of capital to concentrate in these industries.

Tax fairness and local government market cultivation have been encouraged as part of the tax system reform outlined in the Resolution.

See below for full detailed background on the session.

How A&M Can Help

Alvarez & Marsal (A&M) has analyzed the national strategic direction provided by the plenary session and believe it is to the advantage of market participants to examine their actual business operations and development plans, and proactively adjust their strategic direction and organizational functions in the new environment.

A&M is committed to providing enterprises with integrated strategic planning, operational consulting, and financial and tax solutions. We offer professional support in strategic positioning, location studies and advisory, corporate transformation, operational process management, and financial and tax compliance and planning to help businesses respond to and proactively plan appropriately.

Contact our team for assistance implementing any of the following services and solutions:

- **Tax and Supply Chain Solutions:** tax health check, tax planning consulting, transfer pricing and risk management, tax dispute resolution, location studies, and advisory, supply chain tax and customs consulting.
- **Transaction Advisory Services:** one-stop due diligence services covering financial, tax, IT, commercial and operational; transaction structure design and tax planning; assistance with review of transaction documents.
- **Performance Improvement:** interim management, CFO services, corporate transformation, EBITDA and asset efficiency improvement, portfolio operations improvement, merger, acquisition and carve-out.
- **Corporate Finance and Restructuring:** debt advisory, creditor advisory, financing services, capital optimization, financial restructuring, in-court restructuring/procedures.
- **Disputes and Investigations:** dispute resolution, investigation and compliance, forensic technology, financial crimes compliance and investigations, trust services, reporting.

Background on the CPC Plenary Session

The highly anticipated 20th Central Committee's Third Plenary Session was held in Beijing from July 15 to 18, 2024. This plenary session reviewed and approved the Resolution of the Central Committee of the Communist Party of China on Further Deepening Reform Comprehensively to Advance Chinese Modernization (hereinafter referred to as the Resolution). The drafting of this resolution started in November 2023 and took more than seven months. It not only solicited opinions within the party but also listened to the opinions of other political parties, the All-China Federation of Industry and Commerce, representatives of individuals with no party affiliation, and relevant enterprises and experts.

The Resolution begins by elaborating on the importance and the requirements of comprehensively deepening reform and promoting Chinese modernization. It elaborates on reform plans in areas such as the economy, politics, culture, society, environmental conservation, national security, and national defense and the military. The Resolution proposes more than 300 important reform measures, some of which are improvements and enhancements of past reform measures, while others are new reform measures proposed based on practical needs and pilot explorations.

Among the topics discussed in the Resolution, the fiscal and tax system reform is probably one of the most relevant topics that are of utmost significance to market participants. The Resolution elaborates on fiscal and tax system reforms, mainly including increasing local governments' fiscal autonomy, expanding local tax sources, reasonably expanding the scope of use for funds raised from the sale of local government special-purpose bonds, appropriately strengthening central authority, and increasing the central government's fiscal expenditure proportion. The gist is to adjust the financial and administrative powers between the central and local governments and to promote fiscal and tax system reforms along this path.

Fiscal Controls

In terms of fiscal budget and expenditure coordination, the Resolution points out the need to improve the budget system and strengthen unified management of all fiscal resources and budgets, and emphasizes that all revenues generated on the basis of the exercise of administrative power, government credit, and state-owned resources and assets will be placed under government budget management.

Government Authority

Regarding the financial and administrative powers between the central and local governments, the Resolution points out the need to establish a clear division of powers and responsibilities, to coordinate financial resources and to achieve regional balance between the central and local governments. To achieve the above goals, the Resolution points out that it is necessary to place more fiscal resources at the disposal of local governments, expand the sources of tax revenue at the local level and grant greater authority for tax management to local governments as appropriate.

Tax Reform

It is foreseeable that new tax reform measures will follow the plenary session in line with the above directions. The Resolution points out that the core goals of the taxation system are to promote high-quality development, social fairness and the building of a unified market. The three core goals will set the basic tone for the future direction of tax reforms. The Resolution then provided a few specific directions for tax reforms, including:

1. Emphasizing the basic principle of legality of taxation. The Resolution emphasized the mandatory and legal nature of taxation. It

can be expected that the legislative body would continue to promote the key tax legislation (such as value-added tax legislation) and further clarify and explain key issues that taxpayers are concerned with in tax collection and administration, such as the statute of limitations, late payment surcharges and penalties.

2. Regulating policies on tax breaks. Currently, there are still "tax havens" used for "attracting investment" in various regions. In the future, under the broader context of emphasizing fairness and the rule of law in the tax system, these tax havens will no longer exist. Instead, legal tax breaks based on key sectors and links will be implemented. (Please refer to "*A&M China Investment Observation Series: Shanghai Hongqiao and Beijing Changping*.") It is worth noting that the "Rules for Fair Competition Reviews" introduced in June 2024 will take effect on August 1, 2024, which has clearly stated that to promote fair market competition, the authorities should not grant specific businesses tax breaks or give selective/differentiated incentives or preferential treatments in certain resource access, administrative fees, government funds, social insurance, etc.

3. Adapting the tax system to cope with new business models. With the rise of various new business forms, such as platform economy, self-media and cross-border e-commerce, how to effectively manage the tax administration of these non-traditional salary-based incomes is also a topic to be addressed by future tax system reforms.

4. Regulating taxation policies on personal incomes generated from business operations, capital and property. Although the Resolution did not expand on the further measures to regulate the above-mentioned categories of income, it is foreseeable that further regulatory measures for the management of these three categories of income will be reinforced.

5. Moving excise tax collection further down the production-to-consumption chain with the power of collection steadily being passed to local governments, improving the value-added tax credit refund policy and freeing up the channels for making tax deductions, and optimizing the ratio for taxes-sharing between the central and local governments. Before the plenary session, the market had already anticipated excise tax reforms. The Resolution mentioned optimizing the ratio for shared-tax and postponing the excise tax collection chain, suggesting that the treasury distribution will tilt more toward local governments (currently, 100 percent of excise tax is attributed to the central government, but a portion of it is returned to local governments through special fiscal transfer), and tax sharing will incentivize the local governments to cultivate and expand their local markets.

6. Rolling the urban maintenance and construction tax, education surcharge and local education surcharge into a single local surtax, authorizing local governments to determine the specific applicable tax rate within a predetermined range. This is consistent with the previous measures of simplifying tax types and rates and optimizing the administrative system, and also grants greater fiscal autonomy to local governments.

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