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Insights & Ideas

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Insights & Ideas

Should Individual Income Tax Be Levied on the Transfer of "Initial Shares"? (Author: Hong JIANG)

In recent years, there has been a lot of "fortune myths" in Chinese stock market. By acquiring equity interests or shares before a company is listed and then selling the same after the company's listing (the commonly called "initial shares"), some people got profit that is hundreds or thousands times of what they have paid. Here the question is that should these people pay individual income tax?

According to the *Individual Income Tax Law of the People's Republic of China* (2007 Revision) (hereinafter, "**Individual Income Tax Law**"), individual income tax shall be paid for income from transfer of property. The taxable income shall be the amount remaining from the gross transfer income after deducting the original value of the property and reasonable expense and the tax rate is 20%. [1] Moreover, the *Implementing Regulations of the Individual Income Tax Law of the People's Republic of China* (2008 Revision) (hereafter, "**Implementing Regulations**")[2] has defined the scope of "income from transfer of property" and further states that income from the transfer of negotiable securities and equity interests by individuals is within this scope.

The term "equity interest" means the property rights and personal rights enjoyed by investors of a company, based on their status as shareholders. Pursuant to the common usage in Chinese practice, the term "equity interest" only means shareholders equity of a non-listed company. The term "share" means a kind of securities, a written warrant issued by a joint stock limited company representing a shareholder's interests in the company ("shares" in this article shall only mean shares of a listed company). In essence, equity transfer and transfer of shares both mean the transfer of interests owned by a shareholder in a company (a limited liability company, a joint stock limited company or a listed company). However, Article 9 of the Implementing Regulations states that "measures for levy and collection of individual income tax on income from the transfer of shares shall be separately formulated by the Ministry of Finance and implemented upon approval of the State Council". Up to now, both the State Council and the Ministry of Finance has not formulate any specific regulation on "transfer of shares by individuals" and only a few circulars3 issued by the Ministry of Finance and the State Administration of Taxation, prescribe that individual income tax shall temporarily not be levied on income from transfer of shares by individuals.

Subject to satisfaction of all the requirements set forth in law, it's very common that a limited liability company is transformed into a joint stock company and gets listed subsequently. Accordingly, the equity interests held by individual shareholders in this limited liability company changes into shares of a listed company. Hence, why individual tax is levied on transfer of

equity interests while not on transfer of shares? Just as what has been said in the aforesaid circulars, the explanation given by Chinese government is that the Chinese securities market is not mature enough and further study needs to be done on the computation of income for share transfer, the measures for levy and the time limit for paying such tax.[4]

However, the aforesaid circulars do not specify the means by which the shares are acquired so that they may enjoy the tax exemption. In a broad sense, the shares mentioned in the circulars should include both "the shares acquired by the individuals before the company is listed "and "the shares purchased by the individuals after the company is listed". At present, the issue under dispute is that whether individual income tax should be levied on transfer of initial shares by individuals. The tax authorities keep silent on this issue and in practice many existing shareholders have failed to file with the competent tax authorities and pay the corresponding individual income tax after they sold these initial shares.

In my personal opinion, the tax authorities and other relevant departments should, as soon as possible, give a clear definition of "share" and clarify whether individual income tax shall be levied on transfer of initial shares. Considering the purpose of levying tax, the opinion of the general public and the fact that it's not so difficult to fix the computing method of such income, the measures for levy and the time limit for paying such tax, it might be a good choice to levy appropriate individual income tax on income from transfer of initial shares.

Endnotes:

[1] Individual Income Tax Law, Article 2 stipulates "Individual income tax shall be levied on the following categories of income :…(9) incomes from transfer of property". Article 3 says "Individual income tax rates:…(5)income from royalties, interest, dividends, bonuses, lease of property and transfer of property, as well as contingent income and other income shall be taxed at a flat rate of 20%". Article 6 reads "The amount of taxable income shall be computed as follows: … (5) for income from transfer of property, the taxable income shall be the amount remaining from the gross transfer income after deducting the original value of the property and reasonable expense…"

[2] Article 8 of the Implementing regulation says "the scope of the categories of income mentioned in Article 2 of the law shall be as set forth below:…(9) the term 'income from transfer of property' shall mean income derived by individuals form the assignment of negotiable securities, share rights, structures, land use rights, machinery, equipment, means of transportation and other property. … "

[3] Circular by the Ministry of Finance and the State Administration of Taxation on Continuing the Provisional Exemption of Individual Income Tax for Income from Transfer of Shares by individuals (1998), Circular on Provisional Exemption of Individual Income Tax for Income From Transfer of Shares in 1996 (1996), Circular by the Ministry of Finance and the State Administration of Taxation on Provisional Exemption of Individual Income Tax for Income from Transfer of Shares (1994)

[4] Circular by the Ministry of Finance and the State Administration of Taxation on Provisional Exemption of Individual Income Tax for Income from Transfer of Shares (1994) provides that due to the reality that our country's securities market is still not mature yet and joint stock system is still within test period, (further regulations) that are suitable to our country will be formulated after further study of the computation of income for share transfer, levying measures, time limit for paying the tax and be legislated referring to international common practice.

Legal Updates

1. Decision to Amend Section 14 and Section 19 of the Rules on the Administration of Securities Registration and Settlement (Draft for Comment), issued by the China Securities Regulatory Commission (Author: Yanlin LIU)

To accommodate the needs of developing the capital market, on October 13, 2009, the China Securities Regulatory Commission ("**CSRC**") published on its website the *Decision to Amend Section 14 and Section 19 of the Rules on the Administration of Securities Registration and Settlement (Draft for Comment)* (the "**Draft**") to solicit public comments. The Draft amends the following two sections in the *Rules on the Administration of Securities Registration and Settlement* effective on July 1, 2006:

(1) The Draft adds a Subsection 2 to Section 19: "The investors mentioned in the preceding subsection include Chinese citizens, Chinese legal persons, Chinese partnerships and other investors as provided in laws, administrative regulations and rules of the CSRC."

Section 166 of the *Securities Law* provides that "investors who apply to open an account must hold valid identification documents for Chinese citizens or Chinese legal person qualification certificates, unless otherwise provided by the State." According to such provision, only Chinese legal persons and natural persons may open a securities account, and there have been no express legal basis for partnerships and enterprises in other forms to open securities accounts. This amendment enlarges the scope of subjects that are entitled to open securities accounts, by allowing Chinese partnerships and other investors as provided in laws, regulations and rules of the CSRC to open securities accounts.

According to the *Explanations regarding the Amendment of the Rules on the Administration of Securities Registration and Settlement* published by the CSRC on its official website, "other investors" currently include qualified foreign institution investors (QFIIs), foreign strategic investors, natural persons, legal persons and other organizations from foreign countries, Hong Kong, Macau and Taiwan who invest in the B-share market, and venture capital investment enterprises as provided in the *Interim Measures for the Administration of Venture Capital Investment Enterprises.*

(2) The Draft amends Item 3 of Section 14(2) to read: where "Stock exchanges and China Financial Futures Exchange request securities registration and settlement institutions to provide relevant data and information to perform their duties", the securities registration and settlement institutions shall assist in doing so. This amendment entitles China Financial Futures Exchange to inspect securities registration and settlement information.

This amendment aims at establishing necessary information exchange channel between securities registration and settlement institutions and China Financial Futures Exchange to promote the efficiency of the regulatory coordination.

2. Rules on the Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors, issued by the State Administration of Foreign Exchange (Author: Yanlin LIU)

To facilitate the foreign exchange regulation of domestic securities investments by qualified foreign institutional investors ("**QFII**"), on September 29, 2009, the State Administration of Foreign Exchange (the "**SAFE**") issued the *Rules on the Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors* (the "**Rules**"), which became effective on the same date. Aimed at encouraging mid-term and long-term investments, the Rules provides requirements regarding investment quota, account opening, remittance of funds and ongoing supervision, and gives certain special treatments to Chinese open-ended funds. The main contents of the Rules are summarized as follows:

(1) Regulation of investment quota

The investment quota for a single QFII is subject to the approval of the SAFE. Compared to the *Interim Rules on the Foreign Exchange Administration of Domestic Securities Investments by Qualified Foreign Institutional Investors* (the "**Interim Rules**"), the Rules raised the ceiling of the investment quota for a single QFII from equivalence of US$800,000,000 to equivalence of US$1,000,000,000, and the floor of such quota remains equivalence of US$50,000,000.

The QFII shall remit the investment capital into PRC within 6 months after its quota is approved; if, during the prescribed period, the QFII has not remitted in full amount of the investment quota but the remitted capital exceeds equivalence of US$20,000,000, the investment quota is subject to the amount of the actual remitted funds.

The lock-up period for a QFII's investment capital is 1 year, running from the date on which the investment quota is fully remitted into PRC; if such quota is not fully remitted in within the prescribed period, the lock-up period begins to run from the date on which the quota is approved. However, to encourage foreign mid-term and long-term institutional investors to make securities investments in China, the lock-up period for pension funds, insurance funds, mutual funds, charity funds, donation funds, governments and currency authorities, as well as Chinese open-ended funds set up by QFIIs is 3 months.

(2) Regulation of accounts

Compared to the Interim Rules which allows a QFII to open only an RMB special account, the Rules allows a QFII to open a foreign exchange account and an RMB special account, and it further states that QFIIs which set up Chinese open-ended funds shall open a foreign exchange account and an RMB special account for each of such Chinese open-ended funds.

According to the Rules, the funds in both kinds of accounts shall not be used for any purposes other than domestic securities investments. There shall not be any transfer of funds between the accounts for the QFII's self-owned funds, client funds and Chinese open-ended funds, or between the accounts of different Chinese open-ended funds set up by the same QFII. It further stipulates the guardian of the QFII shall file with the local foreign exchange bureau where it is located within 5 days after the accounts are opened, and shall submit the executed guardianship agreement to the SAFE to claim the Foreign Exchange Registration Certificate.

(3) Regulation of remittance and conversion

The Rules set forth that a QFII may inform its guardian to convert the required funds into RMB capital and wire the same to the QFII's RMB special account within 10 days prior to making any actual investments. For QFIIs whose accumulated remitted-in investment capital does not reach equivalence of US$20,000,000, no funds are permitted to be converted into RMB capital for investment purposes.

After the lock-up period, if a QFII (other than Chinese open-ended funds) needs to repatriate the investment capital, it shall obtain the approval from the SAFE and reduce its investment quota accordingly; if it needs to repatriate the realized accumulated earnings, it shall obtain a special audit report from a PRC registered accountant and then entrust its guardian to apply for the approval of the local foreign exchange bureau.

For Chinese open-ended funds, after the lock-up period, the fund can remit in or repatriate out its funds (net subscription or net redemption) by month. For such net subscription or net redemption, if the remitted amount does not exceed or equal to equivalence of US$50,000,000, the guardian may directly conduct the remittance and file with the local foreign exchange bureau; if the remitted amount exceeds US$50,000,000, it shall apply for the approval of the local foreign exchange bureau with the Foreign Exchange Registration Certificate 10 business days in advance, and then conduct the remittance.

(4) Statistics and supervision

The Rules further strengthens the statistical monitoring and on-going supervision, and clarifies the reporting obligations of the QFIIs and their guardians: if any event of material

changes (as listed in Section 21 of the Rules) occurs to the QFII, it shall conduct modification procedures for its Foreign Exchange Registration Certificate with the SAFE and submit written reports thereto within 5 business days; the guardian shall also submit current reports, monthly reports and annual reports regarding the remittance of funds and domestic securities investments of the QFII. Additionally, the Rules also clarifies punishments for QFIIs and guardians in violation of relevant laws and regulations.

3. MOFCOM Conditionally Approved the Proposed Acquisition of Sanyo Electric Co., Ltd. by Panasonic Corporation (Author: Hongling NIU)

On October 30, 2009, the Ministry of Commerce ("**MOFCOM**") issued an Announcement No. 82 (2009) to conditionally approve the proposed acquisition of Sanyo Electric Co., Ltd. ("**Sanyo**") by Panasonic Corporation ("**Panasonic**").

In some previous anti-monopoly decisions, MOFCOM offered little information regarding the reasons behind its decisions, which caused public calls for more information. For example, in its Coca Cola-Huiyuan decision, MOFCOM had to post a Q&A session on its website to clarify some key points behind the decision of this case in response to public doubts. In the decision regarding Panasonic-Sanyo, MOFCOM put much emphasis on the discussion of competition issues to illustrate its decision that this merger would result in restrictions on or elimination of competition.

(1) Analysis of competition issues by MOFCOM

MOFCOM concluded that this concentration would result in restrictions on or elimination of competition on the following three product markets: coin-sized lithium secondary battery, civil nickel-hydrogen battery and automobile-used nickel-hydrogen battery. For each product market, MOFCOM analyzed factors like the extent of concentration, the market shares of the operators participating in this concentration on the relevant market, the effect of this proposed concentration on market access, the effect on consumers, etc. to indicate that this proposed concentration would result in restrictions on or elimination of competition on the aforementioned three markets.

Compared with prior decisions, this decision defined the relevant markets more clearly, quoted numbers when discussing market shares, and fully analyzed the considered factors, which shows that MOFCOM is making effort to reveal more details in its anti-monopoly decisions.

(2) Remedies

During the examination, the notifying parties consulted with MOFCOM for many times and raised ultimate remedies. MOFCOM confirmed that such remedies could eliminate the adverse effect of this concentration on PRC market and then approved it conditionally. MOFCOM mainly opted for structural remedies which caused low monitoring cost. In respect to the abovementioned three product markets, MOFCOM required the following business divestment measures: divesting all of the coin-sized lithium secondary battery business currently conducted by Sanyo, divesting the civil nickel-hydrogen battery business conducted by one of Sanyo and Panasonic, divesting the automobile-used nickel-hydrogen battery business conducted by Panasonic. The announcement also put restrictions on the share percentage, the voting rights held by Panasonic in its jointly invested corporation-PEVE (PEVE has absolute advantage on automobile-used nickel-hydrogen battery market).

In the examination process of this concentration, the remedies were raised by the notifying parties and finally accepted by MOFCOM through consultation between the notifying parties and MOFCOM. This sends a positive signal to the market that although unconditional approvals may be impossible in concentration transactions which raise complicated competition issues, it is still possible that the concentration transactions would be approved by MOFCOM with conditions acceptable to business operators and MOFCOM, through proactively and thoroughly communication between them.

4. Trial Measures on Registration, Record and Management of Equity Investment Funds and Equity Investment Fund Management Companies (Enterprises) in Tianjin (jointly promulgated by six Tianjin municipal commissions and departments on November 10, 2008) (Author: Xiaolin TENG)

On November 10, 2008, Tianjin Municipal Commission of Development and Reform, Tianjin Municipal People's Government Financial Affairs Office, Tianjin Commission of Commerce, Tianjin City Administration for Industry and Commerce ("**Tianjin AIC**"), Tianjin Finance Bureau and Tianjin Local Tax Bureau jointly promulgated the *Trial Measures on Registration, Record and Management of Equity Investment Fund and Equity Investment Fund Management Companies (Enterprises) in Tianjin* (the "**Measures**"). The Measures contain 22 sections in total and became effective as of November 10, 2008. According to Section 3 of the Measures, the Measures applies to equity investment funds and the equity investment Fund Management enterprises which are registered with Tianjin AIC and whose total funds raised are no more than 5 billion RMB (inclusive of 5 billion RMB). However, the Measures do not apply to those equity investment funds and equity investment Fund Management enterprises which are approved by the State Counsel or the National Commission of Development and Reform (the "**NCDR**").

Key points of the Measures are summarized below:

(1) Registration of equity investment funds and equity investment fund management companies (enterprises)

According to the Measures, an equity investment fund may be established in the form of a corporation, partnership, contract or trust. An equity investment fund management company (enterprise) may be established in the form of a corporation or a partnership. Funds and fund management companies (enterprises) established in Tianjin in the form of a corporation or partnership shall be registered with the Tianjin AIC.

As for the number of investors, the Measures requires that the number of investors (including legal persons and natural persons) may not be more than 200 if the equity investment fund or fund management company is registered as a joint stock company; the number may not be more than 50 if registered as a limited liability company or a partnership; or shall comply with the relevant laws and regulations if registered in the other forms.

As for the amount of the registered capital and the capital contribution methods, the Measures set forth different requirements for different types of enterprises. The minimum registered capital of corporate equity investment funds is 10 million RMB; the minimum registered capital of equity investment fund management companies registered as joint stock companies is 5million RMB; and the minimum registered capital of equity investment fund management companies registered as limited liability companies is 1 million RMB. The registered capital of all types of equity investment funds and fund management companies are allowed to be paid up by installments. The first installment of the registered capital in equity investment funds shall be no less than 10 million RMB, and that of an equity investment fund management company shall be no less than 1 million RMB. Capital contribution of partnership equity investment fund and fund management companies shall comply with the Partnership Law of the People's Republic of China. Capital contribution of other forms of enterprises shall comply with the relevant laws and regulations. All investors to an equity investment fund or equity investment management company (Enterprises) shall make their capital contributions in cash.

In addition, the Measures set forth detailed requirements on the business scope and company name of an equity investment fund and fund management company (enterprise).

(2) Recording management of equity investment funds and equity investment fund management companies (enterprises)

According to the Measures, equity investment funds and fund management companies (enterprises) which meet with certain requirements stipulated by the Measures, shall file to Tianjin Equity Investment Funds Development and Recording Management Office (the "**Fund Recording Office**") for record in accordance with the *Reply on Related Policy Issues*

concerning Preliminary Try-out of Equity Investment Funds in Tianjin Binhai New Area Issued by the General Office of the National Development and Reform Commission (NDRC Financial [2008] Order 1006). The Fund Recording Office encourages those equity investment funds and fund management enterprises which are recorded by it and meet with certain other requirements to file with the NDRC in Beijing.

(3) Investment operation management of equity investment funds and equity investment fund management companies (enterprises)

To protect the interest of investors and the safety of fund assets, the Measures requires in principle that equity investment funds must entrust commercial banks which are approved by China Banking Regulatory Commission to take charge of the custody of their fund assets. Funds which have not been used for investment shall be deposited in bank or be used to purchase such fixed income securities as national debts.

The Measures further requires those equity investment funds and fund management enterprises recorded by the Fund Recording Office to submit to the office annual financial reports and business reports as audited by certified public accountant(s) within 4 months after each fiscal year ends, and timely report to the Fund Recording Office of any significant events during the course of investment and business operation. The Fund Recording Office shall review the financial reports, business reports and custodian reports submitted by the recorded equity investment funds, fund management enterprises and custodian banks after the end of each accounting year and may conduct an irregular review if necessary. If any equity investment fund or fund management enterprise is found to violate the Measures, it shall be ordered by the Fund Recording Office to correct within 30 business days, otherwise the record will be revoked.

5. Supplementary Provisions (IV) of the Supreme People's Court and the Supreme People's Procuratorate on Implementing the Determination of Charges under the Criminal Law of the People's Republic of China (Author: Kuinan WEI)

The Supreme People's Court, on September 21, 2009 and the Supreme People's Procuratorate, on September 28, 2009, deliberated and passed the *Supplementary Provisions (IV) of the Supreme People's Court and the Supreme People's Procuratorate on Implementing the Determination of Charges under the Criminal Law of the People's Republic of China* (the "**Supplementary Provisions**"), which add or modify thirteen crime names. Set forth below is a summary of the main content of the Supplementary Provisions.

(1) Nine new charges determined by the Supplementary Provisions

(a) Crime of using undisclosed information to engage in transactions

Paragraph 1 of Article 180 of the PRC Criminal Law (the "**Criminal Law**") stipulates that people who have inside information buy or sell securities or leak relevant information commit insider dealing crime or crime of leaking inside information. This article is amended by *Amendment VII to the Criminal Law* (the "**Amendment VII**"), adding one paragraph as paragraph 4, which states that the act of the relevant persons using any undisclosed information obtained by taking advantage of his position other than inside information to engage in relevant transaction activities, constitutes a crime, where the circumstances are serious,. The Supplementary Provisions define acts under such paragraph 4 as "crime of using undisclosed information to engage in transactions".

(b) Crime of organizing and leading pyramid selling activities

One paragraph is inserted after Article 224 of the Criminal Law as Article 224 (A) by Amendment VII, which states that the acts of organizing and leading pyramid selling activities constitute a criminal offence. The Supplementary Provisions define acts under such paragraph as "crime of organizing and leading pyramid selling activities".

(c) Crime of selling and illegally providing personal information of citizens

An article is inserted after Article 253 of the Criminal Law as Article 253 (A) by Amendment VII. The first paragraph of such inserted article stipulates that the acts of any staff member of a state organ or an entity in such a field as finance, telecommunications, education or medical treatment, selling or illegally providing personal information of citizens, if the circumstances are serious, constitute a crime. The Supplementary Provisions define acts under such paragraph as "crime of selling and illegally providing personal information of citizens".

(d) Crime of illegally obtaining personal information of citizens

The second paragraph of the aforesaid Article 253 (A) of the Criminal Law states that the acts of illegally obtaining the information referred to in the first paragraph by stealing or any other means constitute a crime, if the circumstances are serious. The Supplementary Provisions define acts under such second paragraph as "crime of illegally obtaining personal information on citizens".

(e) Crime of organizing minors to commit activities in violation of the public security administration

An article is inserted after Article 262 (A) of the Criminal Law as Article 262 (B) by Amendment VII, which stating that the acts of organizing minors to commit theft, fraud, snatch, extortion or any other activity in violation of the public security administration constitute a crime. The Supplementary Provisions defines acts under this newly inserted paragraph as "crime of

organizing minors to commit activities in violation of the public security administration".

(f) Crime of illegally obtaining the data stored in the computer information systems or exercising illegal control over the said computer information systems

Any person who intrudes into computer systems with information concerning state affairs, construction of defense facilities, and sophisticated science and technology commits a crime according to Paragraph 1 of Article 285 of the Criminal Law. One paragraph is inserted after such Paragraph 1 as Paragraph 2 of Article 285 by Amendment VII, which states that the acts of intruding into a computer information systems other than that prescribed in Paragraph 1 or using other technical means to obtain the data stored in the said computer information systems or exercise illegal control over the said computer information systems, constitute a crime. The Supplementary Provisions define acts under such Paragraph 2 as "crime of illegally obtaining the data stored in the computer information systems or exercising illegal control over the said computer information systems".

(g) Crime of providing programs or tools specially used for intruding into or illegally controlling computer information systems

One paragraph is added to Article 285 of the Criminal Law as Paragraph 3 by Amendment VII, which makes it an offence to provide programs or tools specially used for intruding into or illegally controlling computer information systems, or still provide programs or tools to any other person by knowing that he is committing the criminal act of intruding into or illegally controlling a computer information systems, if the circumstances are serious. The Supplementary Provisions define acts under such paragraph as "crime of providing programs or tools specially used for intruding into or illegally controlling computer information systems".

(h) Crime of forging, stealing, buying, selling, or illegally providing or using special signs of the armed forces

A paragraph is inserted after Paragraph 2 of Article 375 of the Criminal Law by Amendment VII, which makes it an offence to forge, steal, buy, sell, or illegally provide or use license plates of vehicles or other special signs of the armed forces, if the circumstances are serious. The Supplementary Provisions define acts under such paragraph as "crime of forging, stealing, buying, selling, or illegally providing or using special signs of the armed forces".

(i) Crime of accepting bribe by using one's influence

An Article is inserted after Article 388 of the Criminal Law as Article 388(A) by Amendment VII, which states that where any close relative of a state functionary or any other person who has a close relationship with the said state functionary seeks any improper benefit for a requester

through the official act of the said functionary or through the official act of any other state functionary by using the advantages generated from the authority or position of the said state functionary, and asks or accepts property from the requester for such a benefit or any state functionary who has left his position, any close relative of him or any other person who has a close relationship with him commits the same aforesaid acts by using the advantages generated from the former authority or position of the said state functionary, a criminal offence arise. The Supplementary Provisions define acts under such inserted article as “crime of accepting bribe by using one’s influence”.

(2) Four charges modified by the Supplementary Provisions

(a) Crime of smuggling goods or articles that are prohibited by the state from being imported or exported

The subject protected by Article 151 of the Criminal Law is extended by Amendment VII from “rare plants or their products that are prohibited by the state from being imported or exported” to “rare plants or their products or any other goods or articles that are prohibited by the state from being imported or exported. Accordingly, the Supplementary Provisions re-define acts under such article as “crime of smuggling goods or articles that are prohibited by the state from being imported or exported”.

(b) Crime of tax evasion

Article 201 of the Criminal Law which enumerates some tax evasion activities is amended by Article 3 of Amendment VII as: “where any tax payer files false tax returns by cheating or concealment or fails to file tax returns, and the amount of evaded taxes is relatively large and accounts for more than 10 percent of the payable taxes, he shall be sentenced to ...”. The charge of this article is amended as “crime of tax evasion”, and the former charge “crime of tax dodging” is abolished accordingly.

(c) Crime of interference with animal and plant epidemic prevention and quarantine

“Whoever violates the stipulations of the quarantine law on the entry and exit of animals and Plants, causing major proliferation of animal and plant diseases” which stipulated by the original provision of Paragraph 1 of Article 337 of the Criminal Law is amended by Amendment VII as:“ whoever, in violation of the relevant state provisions on animal and plant epidemic prevention and quarantine, causes a serious animal or plant epidemic or the risk of a serious animal or plant epidemic shall, if the circumstances are serious”. The charge of this article is changed from “crime of evading animal and plant epidemic prevention and quarantine” to “crime of interference with animal and plant epidemic prevention and quarantine”.

(d) Crime of illegally producing, buying or selling uniforms of the armed forces

Article 375 of the Criminal Law is amended by Amendment VII. The provision, “whoever illegally produces, buys, or sells uniforms of the armed forces shall, if the circumstances are serious...” is separated as Paragraph 2 of such Article and the provision regarding crime of using special signs of the armed force is separated as Paragraph 3 of such Article. The Supplementary Provisions re-define acts under this article as “crime of illegally producing, buying or selling uniforms of the armed forces”, and the former name, “crime of illegally producing, buying or selling the signs used by the armed forces” is abolished accordingly.

Important Announcement

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