

China—Value Added Tax New Reform

Recently, two regulations related to Value added tax (“VAT”) reform, i.e. Bulletin 39 and Bulletin 14, were issued and are effective from April 1, 2019. The key changes are listed as below:

Reducing VAT rates

Effective from April 1, 2019, for the taxable activities which 16% VAT rate was applied to, the VAT rate is reduced to 13%; for the taxable activities which 10% rate was applied to, the VAT rate is reduced to 9%. The 6% VAT rate remains unchanged. Below please find a table on the updated VAT rates:

Taxable Activities	Before Reform	After Reform
Sales and imports of general goods; provision of processing, repair and replacement services; and provision of leasing services of tangible and movable assets	16%	13%
Sales of imports of special goods; provision of transportation, postal, basic telecom services, construction services and leasing services of immovable property and sales of land use rights or immovable property	10%	9%
Provision of value-added telecom services, financial services, modern services and lifestyle services; and sales of intangible assets other than land use rights	6%	6%

Currently, there are three VAT rate bands: 13%, 9% and 6%. Based on the government report, these three VAT rate bands will be reduced to 2 bands in the future. As such, enterprises should keep a close eye on the developments in this regard.

In addition, to be consistent with the VAT rates reduction, the export VAT refund rates are also reduced as follows:

- For goods and services which are subject to both 16% VAT rate and 16% export VAT refund rate, the export VAT refund rate is reduced to 13%;
- For goods and services which are subject to both 10% VAT rate and 10% export VAT refund rate, the export VAT refund rate is reduced to 9%;
- No change for the goods and services which do not belong to the above two categories.

Increasing input VAT credit

In addition to the VAT rate reductions, increase of input VAT credit is another important adjustment, especially for services industries in which most taxpayers' VAT rates remain unchanged under this VAT reform.

Items	Detailed stipulation
Input VAT associated with the purchase of passenger transportation services is creditable	Supporting documents: VAT special invoices, VAT electronic general invoices, or qualifying tickets indicating the passengers' identity
Input VAT associated with immovable property could be credited in one installment instead of in two installments in two years	N/A
The super credit, which will be calculated as 10% of creditable input VAT, can be used to offset VAT payables	<ul style="list-style-type: none"> - Applied business: taxpayers which are mainly engaged in providing postal services, telecommunication services, modern services and lifestyle services. - Effective period: April 1, 2019 – December 31, 2021

Refund of input VAT

Before this VAT reform, Chinese VAT rules only allowed the unutilized input VAT to be carried forward to offset future output VAT, instead of a refund of unutilized input VAT. This practice created cash flow issues for some enterprises. As such, the introduction of refund of input VAT is a big reform to solve some cash flow issues and to be consistent with the world practice.

Items	Detailed stipulation
Qualifying taxpayers	<p>A taxpayer must meet all the following requirements:</p> <ul style="list-style-type: none"> - Starting from April 2019, the newly increased unutilized input VAT has been greater than zero for six consecutive months, and the amount of newly increased unutilized input VAT at the end of the sixth month is no less than RMB 500,000; - The taxpayer has a tax compliance rating of A or B; - There are no records of tax fraud or noncompliance related to VAT for the 36-month period before the application; - There are no records of being punished two or more times by the tax authorities due to the tax evasion for the 36-month period before the application; - The taxpayer has not enjoyed certain VAT preferential treatments, which mainly refer to software industries, since April 1, 2019
Calculation of refund	<p>Newly increased unutilized input VAT * input VAT component ratio * 60%</p> <p>“Input VAT component ratio” means the percentage of “Creditable input VAT supported by special VAT invoices, customs tax certificates and withholding tax clearance certificates” / “Total creditable input VAT” (i.e. which is not supported by the above invoice or certificates) during the period from April 1, 2019 until the tax assessment period immediately preceding the tax refund application</p>

It is suggested that the enterprises conduct a self-assessment to examine whether itself, as the taxpayer, is eligible for the input VAT refund and consult with the in-charge tax bureau for the detailed application process.