TAX NEWS CHINA

2019 (No. 3 issue)
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China offers VAT cuts again

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In brief

» China has issued a new announcement (Announcement [2019] No.39) for significant reduction of VAT.

» The new announcement mainly covers the following tax incentive policies:

- Reduction on VAT rates
- Preferential policy for input VAT credit
- VAT refund policy for the unutilized VAT credits

» The effective date of the new announcement is 1 April 2019.

Feedback

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In Detail

The VAT reduction was first announced by Premier Li Keqiang in the government work report to the 13th National People's Congress. After that, China's State Administration of Taxation (SAT), Ministry of Finance (MOF) and General Administration of Customs (GAC) jointly issued the Announcement [2019] No.39 to announce the further reduction of VAT.

This is the sixth round of tax reduction since the transformation of Business Tax to VAT in 2012. This VAT reduction is expected to boost the development of China's economy, especially manufacturing.

1. Reduction on VAT rates

» The adjustments are summarized as below:

Types	Old rates (effective until 31 March 2019)	New rates (effective from 1 April 2019)
VAT rates for general VAT taxpayers' sales activities or imports	16%	13%
	10%	9%
Agricultural products	10%	9%
	12%	10% (Note 1)
Export VAT refund rates	16%	13%
	10%	9%
VAT refund rates for goods bought by visitors	11%	11% (Note 2)
		8% (Note 3)

Notes:
1. For those products used in production or consigned processing and subject to sales VAT at 13%.
2. For goods taxed at 13%.
3. For goods taxed at 9%.

2. Preferential policy for input VAT credit

» The input VAT on immovable properties or immovable properties under construction can be credited in one go instead of two years.

» The input VAT for domestic passenger transportation services is allowed to be credited.

» Qualified enterprises in production or livelihood services industries are granted further 10% input VAT for deduction, for the period from 1 April 2019 to 31 December 2021.

3. VAT refund policy for the unutilized VAT credits

» Enterprises can apply for the refund of the unutilized VAT credits since 1 April 2019, if meeting certain criteria. The VAT refund amount is calculated as follows:

Refund = unutilized VAT credit × proportion of input VAT × 60%, whereas

Proportion of input VAT = (Input VAT + VAT receipt issued by customs + tax receipt accumulated from April 2019 to the latest) / total input VAT of same period

WTS Observation

» The new round of VAT reduction has come into force since 1 April 2019, but there is still some uncertainty, e.g. the process for input VAT credit for passenger transportation services, and the VAT refund process for the unutilized VAT credit. The government is expected to release more details later.

» The VAT burden of many industries (e.g. manufacturing, transportation, and construction etc.) is significantly reduced. The companies in these industries are suggested to check their on-going and future contract to manage the impact of the tax cut. Further discussion with the suppliers and customers will be necessary.

» The policy provides a transitional treatment for input VAT incurred on or before 31 March 2019 (the old export VAT refund rates can still be used if export takes place before 30 June 2019).

» Not all taxpayers can obtain VAT refund, but only those achieving a good tax compliance rating. It signals that compliance is paying off and credit rating is something worthy to pursue by operators.

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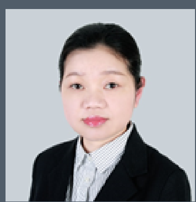

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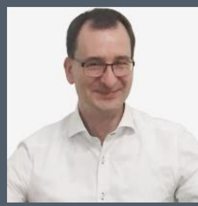

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