



## New VAT implementation regulations

### In brief

- » China issues the VAT Regulations on 25 December 2025, as a supplementary measures to the new VAT Law introduced in 2025, both of which came into force on 1 January 2026. The new VAT Regulations are of great significance for refining and enhancing the certainty of the VAT Law.

Feedback



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## In details

On 25 December 2025, the State Council promulgated the “*Implementation Regulations for the VAT Law*” (hereinafter the “**VAT Regulations**”), which came into force on 1 January 2026 alongside the VAT Law (see our newsletter No. 3, 2025).

China’s VAT regime adopts its usual centralized, multi-tier structure, with the VAT Law at the peak, supplemented by the VAT Regulations, and facilitated by numerous circulars and notices. The VAT Regulations, as the principal implementing rules for the VAT Law, focus on the nuts and bolts. They have drawn significant public attention regarding how the new VAT Law is interpreted. This article examines some important aspects regarding how the VAT Regulations have offered additional clarification and interpretations to the VAT Law.

### Clarifications offered by VAT Regulations

#### A. Onshore doctrine

- The VAT Law (under Article 4), while placing more explicit emphasis on the “*onshore*” characteristic as the core principle for determining taxability, has listed out four (4) occasions that are always taxable. The forth one below regarding “*consumed in China*” obviously requires elaboration:
  1. Goods being sold are originated from or are located in China;
  2. Immovable property or resources being sold or leased are located in China.
  3. Financial instruments transferred are issued in China or the seller is a domestic entity/persons (DEP); or
  4. Services or intangible property (IP), except point 2 & 3 above, are consumed in China or the seller is a DEP.
- Thereafter, the VAT Regulations (under Article 4) help explain what “*consumed in China*” means by specifying that the following three scenarios would be considered as “*consumed in China*”:
  - a) Services or IP sold by overseas entities/persons (OEPs) to DEPs (excluding services consumed onsite overseas);
  - b) Services or IP, sold by OEPs, directly related to domestic goods, immovable property or natural resources; or
  - c) Other circumstances specified by the finance and tax authorities under the State Council.

Evidently, scenario (b) adopts a unique nexus (directly related to domestic items) for “onshore” consumption. Thus, a sale should be VAT-free, if *unrelated* to Chinese assets.

#### B. Mixed transactions

- The VAT Law has changed its name and the game of the rule. It has abolished the term “*mixed sales*” for describing a good/service-bundled transaction, by adopting (under Article 13) a general narrative of “*a transaction involving different VAT rates*”. Further, it has abandoned the reliance on the “core business” of an entity, but focuses instead on the transaction per se to differentiate its “principle/subordinate” tasks, and favors the principle task for VAT rate determination. A transaction involving more than two different VAT rates should be accounted for separately and adopt different VAT rates; otherwise, the highest VAT rate applies.
- The VAT Regulations further clarifies (under Article 10) the two main features for a bundled transaction:
  - The transaction has more than two different VAT rates;
  - The principal task will always prevail for VAT rate determination.

For example, an express delivery service may comprise two tasks of two different VAT rates: delivery (6%) and transportation (9%). Since they all serve the same purpose of distribution, the two tasks should be viewed as bearing a principle/subordinate relationship. Thus the principle task’s VAT rate (6%) should prevail.

## Clarifications offered by VAT Regulations

**C. Loan interests & non-VAT transactions**

- The VAT Law (under Article 22) states six (6) situations in which input VAT is non-creditable from the output VAT, but *has* not addressed the non-credibility of input VAT incurred on loan interests and non-VAT transactions (i.e. transactions irrelevant to VAT).
- The VAT Regulations have therefore supplemented the clarification by:
  - Reaffirming (under Article 21), per the current practice, the non-credibility of input VAT incurred on interests and loan-related fees, but tagging the denial as a “*temporary practice*”, leaving a room for future evaluation.
  - Reaffirming (under Article 22) the non-credibility of input VAT in non-VAT transactions in general.

**D. Long-term assets**

- The VAT Law (under Article 22) has stated six (6) situations where input VAT becomes non-creditable, but has not addressed how the assets should be treated if they are used in a hybrid circumstance (i.e. in both taxable and non-taxable events).
- The VAT Regulations thereafter (under Article 25) complement the list with a situation involving the usage of “long-term assets” (comprising fixed assets, IPs and real estate) concurrently in a hybrid circumstance. The treatment to their input VAT differs, dependent on the value of the long-term assets:
  - For minor assets ( $\leq$  RMB 5 million), fully creditability is allowed as a simple means; and
  - For significant assets ( $>$  RMB 5 million), full creditability is allowed at the time of purchase, but must be adjusted annually to exclude non-creditable input VAT in the years to come until the hybrid-usage ends.

**E. New withholding mechanism for natural persons**

- The VAT Law has specified (under Article 15) that an overseas person as a buyer is a VAT withholding agent for taxable transaction conducted in China but has not addressed the case where the buyer makes his/her purchase via a Chinese entity.
- The VAT Regulations (under Article 35) specifies that a Chinese entity, if being a paying party making a payment to a foreign person, should assume the withholding obligation -- a requirement similar to that currently imposed on internet platform operators under the tax circular, Announcement No. 16 of 2025.

**WTS China’s observation**

The VAT Regulations provide practical guidance for the new VAT Law, by enhancing certainty to minimize discretionary interpretations. This can be well illustrated in two recent cases we handled recently:

- The first case concerns IP royalties charged to overseas. A local tax office was unwilling to grant a non-taxable position, contending that the IP is *related* to a Chinese goods, i.e. the products sold in China by the foreign entity after using the IP. This case happened in late 2025, before the VAT Regulations took effect. With the VAT Regulations now in force, it is now clear that the relevance is not a direct one.
- The second case concerns repair services provided by a Chinese entity to an overseas customer. The tax officer contended that the machine, being sent to China for repairing, is a *domestic good*, triggering the taxable nexus. This case also predated the VAT Regulations. The issue was later relieved by Article 9 [iii] of the VAT Regulations which offer a zero-rated VAT concession to a case where the repaired goods will be finally exported provided by Chinese entities.

Together, the VAT Law and the Regulations — both effective from 1 January 2026 — mark a new milestone in China’s VAT regime. They formally conclude the long transition period in which VAT evolved from a dual indirect tax system (coexisting VAT and business tax) to a unified indirect tax regime. Nevertheless, a few legacy rules remain in force alongside. Consequently, additional nuanced adjustments can be expected. <sup>(1)</sup>

*Note 1: While this article was in preparation, five more VAT circulars were just issued to elaborate on specific details.*

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