

## China Business Advisory

2013 Issue 7

July 2013



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### Implementation of Import VAT Deduction

On 1 July 2013, the Announcement which was jointly released by the State Administration of Taxation (“SAT”) and General Administration of Customs (“GAC”) requesting the expansion of the policy of “Verification before Value-Added

Tax (“VAT”) Deduction” was implemented nationwide (“Announcement 31”). It stipulates that customs VAT receipt must be verified by the Tax Authority before the relevant input VAT on customs receipt can be set off against output VAT. If the deadline of 180 days after the issue date of the customs receipt is not met, no deduction can be made. It will take effect on 1 July 2013.

### Clarification on Recognition of VAT General Taxpayer

The State Administration of Taxation (“SAT”) issued Announcement 28 on 31 May 2013 to replace Announcement 38 which was issued for pilot tax reform in eight provinces or municipalities. The main points of the announcement, which will become effective on 1 August 2013, are as follows:

- Taxpayers with not less than RMB 5 million of annual taxable service turnover should apply to the competent state tax authorities for recognition as general taxpayers.

- Taxpayers with annual turnover of less than RMB 5 million may also voluntarily apply for recognition as general taxpayers subject to the acceptance of the relevant tax authority.
- Annual turnover is turnover including tax from taxable activities within 12 consecutive months / (1 + 3%).
- Sales of goods, provision of processing and repair services and taxable services subject to the tax reform should be accounted for separately.

## **Easier Unified Foreign Exchange Control on Service**

State Administration of Foreign Exchange (“SAFE”) issued a circular, Huifa [2013] No. 30, on 24 July 2013 to update and unify regulations for foreign exchange control on service, which is aimed at easier compliance. On the same day, the SAFE and SAT jointly released another document, Announcement [2013] No. 40, to clarify relevant tax requirements to accommodate Huifa [2013] No. 30. The key information from them includes:

- No need for approval for buying foreign currency for service payment
- No document review requirement for service payments which are not more than USD50K or equivalents
- Simplification of document requirements for those service payments which are more than USD50K or equivalents (e.g. applying tax filing procedures in lieu of the requirement for tax certificate)
- Easing the requirements on service income deposited overseas

The new regulations will come into effect on 1 September 2013 and it is expected to provide more convenience and flexibility to enterprises.

## Reinforcement of Supervision on Foreign Capital Inflow

From 1 June 2013, the foreign capital inflow will be supervised more rigorously according to “Circular 20” recently issued by the SAFE. The circular spells out that enterprises whose goods and capital flow are severely incoherent or whose capital inflow is unreasonably large would be required to give an explanation to SAFE within 10 working days. If they are unable to explain or if their explanation is unreasonable, they will be classified as a Type B enterprise who will be subject to stricter supervision than Type A enterprises. Type B enterprises can move up to become Type A enterprises if they fulfill requirements on them in three consecutive months. Circular 20 also states that if any anomalous foreign capital inflow is found to be in violation of foreign exchange regulations, the related bank, enterprise and other related parties will be heavily fined and their business operation could be suspended.

## Service Highlight

It has always been a challenging job for us to provide useful information to our clients who has operations in China but we derive huge sense of satisfaction from being an integral part of their success through our efforts. Should you need any help from us, please do not hesitate to contact our Marketing Executive, Ms Mary Li, on +852 3579 8745 or email her at [maryli@sinobridge-consulting.com](mailto:maryli@sinobridge-consulting.com).

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