China Business Advisory

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Update on VAT Policies

On 14th August 2017, the State Administration of Taxation ("SAT") issued the Announcement [2017] No. 30 ("Announcement 30") giving some important updates on the Value Added Tax ("VAT") policy as per below:

- VAT payers, who have completed VAT exemption recordal procedures for the first cross-border VAT activity in accordance with SAT Announcement [2016] No. 29, are not required to conduct further recordal filings for subsequent transactions of the same nature. The taxpayers should keep full sets of supporting documents required for the VAT exemption for tax authorities' future review. Those who fail to provide such documents during the follow-up administration cannot enjoy the VAT exemption and would have to make supplementary penalty payments according to the PRC Administrative Law of Tax Collection;

- Where a VAT payer signs a shipping service contract with a consignor as a carrier, while subcontracting the entire or part of the shipping service to a subcontractor, input VAT of refined oil and tolls of roads, bridges and water gates, which the taxpayer has purchased and provided to the subcontractor, can offset the taxpayer's output VAT if both requirements below are met;

- The refined oil and the tolls of roads, bridges and water gates are used by the subcontractor to provide the sub-contracted shipping services

- Valid VAT credit vouchers are available

- Where an individual leases real estate to tenants through a real estate agent or a house renting enterprise, he/she can ask the real estate agent or the house renting enterprise to apply for the issuance of VAT invoices by the local tax authorities on his/her behalf;

- Starting from 1st January 2018, financial institutions providing discount and/or rediscount services can issue normal VAT invoices based on the full amount of the discount interest to the discount applicants and rediscount institutions.

Announcement 30 came into effect on 1st September 2017 except for the last point above, which will become effective on 1st January 2018.

Moreover, the Ministry of Finance ("MOF") and SAT jointly issued a notice, Caishui [2017] No. 76 ("Circular 76") on 20th October 2017. Circular 76 stipulates that small-scale VAT taxpayers with monthly sales amounts between RMB20,000 and RMB30,000 will continue to be exempted from VAT from 1st January 2018 until 31st December 2020.

More Support to Small and Micro-sized Enterprises

The State Council executive meeting on 27th September 2017 announced the decisions to strengthen financial and tax support for small and micro-sized enterprises. The preferential tax policies are as follows:

- The upper limit of loans to agricultural households with VAT exemptions for relevant interest will increase from RMB100,000 to RMB 1 million between 1st December 2017 and 31st December 2019, and the scope will expand to small and micro-sized businesses and self-employed individuals;

- Stamp duty exemption for loan contracts of small and micro-sized businesses and extension of VAT exemption to 2020 for those with monthly sales revenue not exceeding RMB30,000;

- Establishment of inclusive finance departments of large-scale state-owned banks at the grassroots levels is promoted with some preferential policies to support the development of rural areas;

- A national financing guarantee fund and a policy-oriented agricultural credit guarantee system will be established to cover different levels of administrative regions in three years to enhance the support to small and micro-sized agricultural enterprises;

- Ease of restrictions for applicants of interest subsidy for startup loans with accelerated application using high-end technologies such as big data and cloud computing in order to provide timely and convenient financial services to small and micro-sized enterprises.

Premier Li urged efforts to develop preferential policies for rural and agriculture businesses. It is expected that relevant departments will put these policies in place for implementation as soon as possible.

Revised DTA between China and Romania

SAT issued a notice, Caishui [2017] No. 38 ("Circular 38") on 30th October 2017 pertaining to the revised agreement between China and Romania for the elimination of double taxation ("DTA"). The revised DTA had been signed on 4th July 2016 and took effect on 17th June 2017 after completion of legal procedures by both parties. It will be applicable to income generated from 1st January 2018 onward.

The main changes of the revised DTA are listed below:

- The principle to determine a service Permanent Establishment has been changed from a 6-month approach to a 183-day approach;
- Reduction of withholding tax on dividends from 10% to 3%;
- Reduction of withholding tax on interest from 10% to 3%;
- Reduction of withholding tax on royalty from 7% to 3%.

Sino-Bridge Consulting Group

Service Highlight

With continuously evolving regulations in China, it is critical for businesses to be up to date with these rapid changes. With more than two decades of experience in providing consulting services to businesses operating in China, we are confident that we can provide our clients with insightful and practical advice. We are more than keen and privileged to help our clients. Our Marketing Executive, Ms. Kimme Chan, would like to hear from you at (852) 3579 8745 or kimmechan@sinobridge-consulting.com to learn of how we could assist you with your business.

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