

China Business Advisory

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Implementation Rules for VAT Reform Across All Industries

The Ministry of Finance (“MOF”) released Caishui [2016] No. 36 on 23rd March 2016 setting out the implementation rules for Value Added Tax (“VAT”) reform to extend across all industries in accordance with Caishui [2016] No.32 mentioned in our March issue. The

implementation rules will be effective from 1st May 2016. The most affected industries are those in construction, real estate, finance and consumer services companies as they are currently subject to Business Tax (“BT”) instead of VAT. We summarize the impacts on these industries below:

Construction and Real Estates Industry

Costs paid to the government for land use right will be excluded in determining VAT payable.

The applicable VAT rate for sales of immovable properties and transfer of land use right is 11%. General Tax Payer selling old projects or immovable properties (old projects or immovable properties refer to projects with construction commenced or purchased before 30th April 2016) can choose to use general tax computation (where applicable tax rate is 11%) or simplified tax computation (where applicable tax rate is 5%).

For leasing of immovable property, the applicable VAT rate is 11%. General Tax Payer leasing old immovable properties can choose to use general tax computation (where applicable tax rate is 11%) or simplified tax computation (where applicable tax rate is 5%).

As a result of the transitional arrangements mentioned above, construction and real estate companies are expected to only benefit from the VAT reform.

Finance Services Industry

The applicable VAT rate for finance services is 6% for general tax payers and 3% for small scale tax payers. Finance services refer to operating finance and insurance business activities including lending, direct charging financial services, insurance services and transfer of financial products.

For lending, revenues chargeable to VAT are interest income and/or other income with the nature of interest. For sale and lease back business, revenues are all amounts and fees receivable (excluding principal) less interest payable on loans and issue of bonds (applicable to leasing companies with paid up capital of not less than RMB170 million).

For direct charging financial services, the revenues chargeable to VAT are charges, commission, service fee, management fee, handling fee, account opening fee, settlement fee, exchange fee, transfer or custody fee, etc.

For transfer of financial products, revenues represent the difference between sales proceeds and purchase costs, which can be determined using weighted average or moving weighted average method which, once chosen, cannot be changed for the next 36 months. Negative balance can be set off against positive balance and carried forward to the next period but not the next financial year.

The new rules will have significant impacts on this industry and companies in this industry are advised to study the rules carefully to optimize their result from this reform and put in place in good time system and procedures to cope with necessary changes to their tax reporting.

Consumer Services Industry

The applicable VAT rate for consumer services industry is 6%. Consumer services extend to a wide scope including different services and activities provided to residents in cities and towns to satisfy their daily living requirements, including cultural and sports services, education and medical services, travel and entertainment services, food and beverage and accommodation services, daily living services and other living services.

Since most of the companies in the consumer services industry are currently paying BT at the rate of 3% or 5%, the change may result in increased tax payable if the companies do not have sufficient input VAT to set off against VAT payable at 6%. And if they do, they need to upgrade their tax reporting system to deal with deduction of input VAT against output VAT. This would likely be a challenge for small business with limited resources and experience in handling VAT. Sino-Bridge is set to see them through to the expectation from the Chinese government that most companies should pay less tax than before as a result of the implementation of VAT to replace BT.

Zero Import Duty and Reduced VAT and Consumption Tax on Certain

Cross Border Electronic Commerce Retail Business

The MOF, the General Administration of Customs (“GAC”) and the State Administration of Taxation (“SAT”) jointly announced Caiguanshui [2016] No.18 on 24th March 2016 setting out zero import duty and reduced VAT and consumption tax for cross border electronic commerce retail purchase. Individuals purchasing from overseas electronic commerce retail business with value of RMB2,000 or below and annual transaction value of RMB20,000 or below can enjoy zero import duty and reduced VAT and consumption tax (70% of the standard levy payable).

The above tax privileges can only be applied if the cross border electronic commerce retail business can satisfy either of the following requirements:

1. use the electronic commerce trading platform of GAC and satisfy consistency in electronic information for order, payment and logistics and undertake to bear legal obligations for importing products under the electronic commerce trading platform; or
2. where it is not using the electronic commerce trading platform of GAC, arrange courier and postage companies to be able to provide unified electronic information for order, payment and logistics and undertake to bear legal obligations for importing products under the electronic commerce trading platform.

The notice became effective from 8th April 2016.

Service Highlight

As the second largest economy in the world, China attracts the world's attention for any of its major moves. Sino-Bridge will continuously update you on such that could have significant impacts on your operation in China. From your end, you are encouraged to contact our Marketing Executive, Ms. Kimme Chan, at (852) 3579 8745 or kimmechan@sinobridge-consulting.com for any assistance you may need from us.

Our China Investment Business Advisory Team

Hong Kong

Room 2301-02, 23/F, Prosperity Center,
25 Chong Yip Street, Kwun Tong, Kowloon, Hong Kong

Guangzhou

Room A13, 16/F, Vili International, 167 Linhexilu, Tianhe
District, Guangzhou PRC 510000

Website: www.sinobridge-consulting.com

E-mail: info@sinobridge-consulting.com

Telephone: (852) 3579 8745

Shanghai

Room 30A, 30/F, World Plaza, No.855, South Pudong
Road, Pudong New Area, Shanghai, PRC 200120

Lyon Odiceo

115 Boulevard Stalingrad – BP52038,
69616 Villeurbanne Cedex, France

Hong Kong

Guangzhou

Shanghai

Lyon

For any enquiries, please contact Ms. Kimme Chan, Marketing Executive: kimmechan@sinobridge-consulting.com Tel: (852) 3579 8745