SINO-BRIDGE
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Changes of VAT Rates

Value-added tax ("VAT") reform is a major step in China's tax regime improvement. The replacement of Business Tax by VAT has been one of the most significant overhauls in two decades. This move aims to streamline the tax return filing process and avoid double taxation. The pilot programme started in Shanghai in 2012 and expanded to the rest of China in May 2016. The VAT reform has helped to reduce the overall corporate tax burden and simplify the tax regime resulting in a more attractive business environment.

On 28th March 2018, further VAT reform was noted as the decision to cut VAT rate was announced after the State Council executive meeting chaired by Premier Li Keqiang.

Following the executive meeting, Caishui [2018] No.32 was issued by the Ministry of Finance and the State Administration of Taxation detailing the major changes in VAT as summarized below:

<table>
<tr><th>Item</th><th>Current Rate</th><th>New Rate</th></tr>
<tr><td rowspan="2">VAT rate for sale of goods and import of goods</td><td>17%</td><td>16%</td></tr>
<tr><td>11%</td><td>10%</td></tr>
<tr><td>VAT credit rate for purchase of agricultural products</td><td>11%</td><td>10%</td></tr>
<tr><td>Export VAT refund rate for goods currently subject to both VAT rate and export VAT refund rate at 17%</td><td>17%</td><td>16%</td></tr>
<tr><td>Export VAT refund rate for goods and services currently subject to both VAT rate and export VAT refund rate at 11%</td><td>11%</td><td>10%</td></tr>
<tr><td colspan="3">VAT credit of agricultural products purchased for manufacturing, selling or subcontracting products subject to 16% VAT rate will be subject to a new rate of 12%;

The circular will become effective on 1st May 2018. A transitional arrangement has been put in place with a deadline on 31st July 2018 to allow exporters to get VAT refund according to the current refund rates for products / services purchased at the rates before this change</td></tr>
</table>

Unified and Relaxed Revenue Criterion for Small-scale VAT Taxpayers

In the aforementioned State Council executive meeting, it was also announced that the annual taxable revenue cap for small-scale VAT taxpayers will be unified for industrial and commercial enterprises. The amount will be raised from RMB500,000 and RMB800,000 for industrial and commercial enterprises respectively to RMB5 million (i.e. the same criterion for service providers set during the VAT reform) on 1st May 2018.

VAT is levied on small-scale VAT taxpayers at a lower rate of 3% with no further deduction of VAT whereas general VAT taxpayers have to pay output VAT at a higher rate, between 6% and 17% after the deduction of the relevant VAT credit.

The unification and relaxation of taxable revenue criterion aims to encourage the development of small and medium-sized businesses. Eligible enterprises registered as general VAT taxpayers are allowed to switch their status to small-scale VAT taxpayers before the end of this year.

Critical Annual Matters for FIEs

Foreign Invested Enterprises ("FIEs") in China are required to fulfil certain annual reporting and filing procedures, such as the National Annual Joint Reporting of Investment and Operation Information of FIEs ("Annual Joint Reporting") and the Corporate Income Tax Annual Return ("CIT Annual Return").

The Ministry of Commerce, Ministry of Finance, State Administration of Taxation, General Administration of Quality Supervision, Inspection and Quarantine, National Bureau of Statistics and State Administration of Foreign Exchange jointly released a notice on 12th March 2018 to provide information on Annual Joint Reporting for 2017. The key information is as follows:

- FIEs established and registered in China shall log onto a special online system for Annual Joint Reporting and fill in the annual investments and operation information for 2017 between 1st April and 30th June 2018. Information does not need to be submitted separately to each authority as all of the foregoing authorities can access and review the information on this special online system. FIEs established in 2018 are required to fulfil this requirement next year.

- According to Interim Regulations on Enterprise Information Publicity (State Council Order No. 654), the information in Annual Joint Reporting will be made public through the dedicated online platform.

With regards to the CIT Annual Return, the State Administration of Taxation published Announcement [2018] No. 15 on 10th April 2018 to further clarify about the treatment of asset losses. In the past, taxpayers had to obtain pre-approval or pre-filing for asset losses for the purpose of CIT deduction. As part of the measures to improve the commercial environment and streamline the administrative process, the tax authority waived these pre-approval and pre-filing requirements. Enterprises are now only required to maintain relevant supporting documents and ensure that these documents are authentic, legal and complete. This reform is applicable to CIT Annual Return for the year of 2017 and onward.

The above changes will lessen taxpayers' administrative burden. However, not all taxpayers have the capabilities to maintain proper supporting documents. In such cases to avoid incompliance, external professional services provider should be engaged.

Service Highlight

China remains to be one of the most attractive markets for investors from all over the world. Sino-Bridge who has more than two decades of dedicated operations in China can help businesses stay on top of the ever changing business and regulatory environment. 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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