

# China Business Advisory

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#### Further Reform of Value-Added Tax (“VAT”) Regulations

On 20<sup>th</sup> March 2019, Ministry of Finance (“MOF”), State Administration of Taxation (“SAT”) and General Administration of Customs (“GAC”) jointly issued a circular, Caishui [2019] No. 39 (“The Circular”), which illustrates details of further VAT reform including:

1. Broadening scope of Input VAT eligible for deduction
2. Refund of excess input VAT
3. VAT rate changes

The key points of each part are as below:

#### 1. Broadening scope of Input VAT eligible for deduction

- Input VAT from the purchase of passenger transportation services can still be deducted (creditable) where special VAT Invoices are not obtained, if the following supporting documents are available:
  - i. VAT electronic general invoices issued by transportation service providers, where creditable input VAT is indicated on the invoices;

- ii. E-ticket itinerary listing passengers' ID information from air transportation, where creditable input VAT would be calculated as below:

$$\text{Input VAT credit} = (\text{ticket price} + \text{fuel surcharge}) / (1+9\%) \times 9\%$$

- iii. Railways tickets listing passengers' ID information, where creditable input VAT would be calculated as below:

$$\text{Input VAT credit} = \text{ticket price} / (1+9\%) \times 9\%$$

- iv. Highways/waterway tickets listing passengers' ID information, where creditable input VAT would be calculated as below:

$$\text{Input VAT credit} = \text{ticket price} / (1+3\%) \times 3\%$$

- Full input VAT credit at once for real estate and construction in progress

All input VAT of real estate and construction in progress can be credited at once after 1<sup>st</sup> April 2019. The original two-year credit method will be abolished and any input VAT which has not yet creditable from the old regulations will become creditable on 1<sup>st</sup> April 2019.

- "Super Credit" for eligible expenses

Where a general VAT taxpayer engages in providing postal, telecommunication, modern and lifestyle services and its sales from the above services comprise over 50% of total sales, it will be eligible for a 10% "super credit" and can enjoy additional 10% creditable VAT for the period from 1<sup>st</sup> April 2019 to 31<sup>st</sup> December 2021.

1. The specific provisions on determining eligibility are as follow:

- For general VAT taxpayers established before 31<sup>st</sup> March 2019, the relevant sales for determining eligibility to “super credit” will be based on sales from April 2018 to March 2019. Where their actual operation period is less than 12 months, eligibility will be based on their actual operation period. In both case, they can enjoy the new regulations from 1<sup>st</sup> April 2019.
- For general VAT taxpayers established after 1<sup>st</sup> April 2019, sales for their first three months’ operations will be used to determine eligibility. Eligible tax payers can enjoy the credit from the date they are registered as a general VAT payer.

After a general VAT taxpayer is confirmed to be eligible for the “super credit”, no adjustments shall be made within the current year. The eligibility of the “super credit” shall be reassessed in the next calendar year based on its actual sales in the preceding year.

2. Accrual of the “super credit” is calculated as follow:

- “Super credit” to be accrued for the current period = Creditable input VAT of the current period x 10%

Where a general VAT taxpayer has incurred a reduction of input VAT from which the “super credit” was derived, the relevant amount of the “super credit” should be reduced in the corresponding period when the input VAT is transferred out.

- “super credit” of input VAT deductible for the current period = Balance of “super credit” of input VAT for the preceding period + “super credit” of input VAT accrued for the current period  
- Reduction of “super credit” of input VAT for the current period

If the VAT payable is zero and less than the “super credit” of input VAT deductible for the current period, the balance of the uncredited “super credit” accrued for the current period can be carried forward to the next period. “Super credit” balance cannot be used to offset against VAT payables after the expiration of the policy on 31<sup>st</sup> December 2021.

3. “Super credit” is not applicable for input VAT in relation to export business activities. For a taxpayer engages in both export and domestic business activities, the taxpayer should separately account for input VAT in relation to each activity for the calculation of the applicable “super credit”. If no separate accounting is available, “super credit” will be calculated based on the ratio of domestic sales to total sales on the total input VAT.

## **2. Refund of excess input VAT**

The Circular allows qualifying general VAT payers to claim a partial refund of unutilized input VAT (which normally can only be carried forward to offset future output VAT) where the following conditions can be met:

- Where the tax payer has incremental unutilized input VAT balance for the previous six consecutive months (or two consecutive quarters, if the filing is on a quarterly basis) since 1<sup>st</sup> April 2019, and the incremental amount have grown by not less than RMB 500,000 over that same sixth month period;
- The taxpayer’s tax credit rating must be an “A” or “B”;

- There are no records of tax fraud or noncompliance in relation to issuance of VAT special invoices or export VAT refunds within the previous 36 months;
- The taxpayer has not been penalized for more than two times (including two times) by the tax authorities for tax evasion within the previous 36 months;
- The taxpayer has not enjoyed “Refund Upon Collection” or “Collection First Refund Later” measures;

Amount of incremental unutilized input VAT refund = Incremental amount of unutilized input VAT  
X 60% X Input VAT ratio

The "input VAT ratio" refers to the percentage of creditable input VAT with VAT special invoices (including unified invoice of motor vehicles sales) and customs import VAT certificates and withholding tax clearance certificates, to the total creditable input VAT, for the period from 1<sup>st</sup> April 2019 to the tax assessment period preceding the refund application.

Taxpayers shall apply to the tax bureau for incremental unutilized input VAT refund within the period of VAT declaration.

Taxpayers of export of goods and services, cross-border taxable activities adopting “Exempt, Credit, Refund” method (applicable for manufacturing company) could still be eligible for incremental unutilized input VAT refund when they meet the relevant requirements. However, taxpayers adopting "Exempt and Refund" (applicable for trading company) method are not eligible.

### 3. VAT rate changes

No.	Activities	Current VAT Rate	New VAT Rate	Remarks
1	Sales of goods/provision of taxable activities	16%	13%	For detailed analysis, please see our CBA of March 19.
		10%	9%	
2	Input VAT calculation rate of agricultural products purchasing	10%	9%	
	Input VAT calculation rate of agricultural products purchasing for further producing into products	13%	10%	
3	16% VAT refund rate for export of goods and services	16%	13%	The old VAT refund rate will be applicable if taxpayers who adopted "Exempt and Refund" method exported of goods and services, cross-border taxable activities subject to old VAT rate before 30 <sup>th</sup> June 2019.
	10% VAT refund rate for export of goods, cross-border taxable activities	10%	9%	
4	VAT refund rates of goods purchased by overseas tourists	13%	11%	The old VAT refund rate will be applicable if the goods purchased were subject to old VAT rate before 30 <sup>th</sup> June 2019.
		9%	8%	

Premier Li stressed that the new VAT policy must be delivered in no time and its implementation must be closely monitored to ensure that tax burdens are meaningfully reduced. Implementing the changes within a short time is going to be challenging for tax authorities and taxpayers. For taxpayers which pay and collect significant amount of input and output VAT, we recommend them to evaluate, plan and take actions to take full advantage of the new regulations.

## Service Highlight

Sino-Bridge specializes in assisting foreign-invested companies operate in China. We believe it is important to enlist the help of experienced consultants like Sino-Bridge when encounter the rapid pace of tax reform combined with inconsistent local practice and enforcement which will produce certain practical issues. Our primary focus is serving our clients, our Marketing Executive, Ms. Rika Wong, would like to hear from you at (852) 3579 8745 or [Rikawong@sinobridge-consulting.com](mailto:Rikawong@sinobridge-consulting.com) to learn of how we could assist you with your business.

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