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MOC: China is Mulling E-Commerce Tax

As of 7 June 2013, research on a possible E-commerce tax is beginning to occur, according to Yao Jian, spokesman of China's Ministry of Commerce (MOC). The idea of inflicting taxes on the E-commerce business was first brought up when online shopping began in China in 2003. The issue of imposing taxes was again brought up at this year's National People's Congress (NPC) and Chinese People's Political Consultative Conference (CPPCC) sessions. After which, it has been stated that relevant departments are set to work on the way to tax online shop owners in due course.

In 2012, China's booming E-commerce market witnessed exponential growth, with its total transaction capacity surpassing RMB8 trillion for the first time, which is up 31.7 percent year-on-year. What's even more impressive is that the country's online shopping industry has already exceeded Japan's in 2012 and is expected to pass the United States' by 2013, making China the world's largest online retail market. Given the growing importance and the huge potential of the country's online retail industry, you can imagine that amount of E-commerce tax of online retail industry is an important source of revenue in China if implemented successfully in future.

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China Releases Measures for Nationwide VAT Pilot Reform Adoption

On 24 May 2013, China's Ministry of Finance (MOF) and State Administration of Taxation (SAT) released the Notice Concerning the Nationwide Adoption of Value-Added Tax (VAT) in lieu of Business Tax (BT) Pilot Tax Collection Policy in the Transportation Industry and Certain Modern Service Industries (Caishui [2013] No. 37, hereinafter referred to as 'Circular 37'). Prior to the pilot reform, VAT was levied on the sale and importation of tangible goods, and on the provision of processing, repair and replacement services. BT, on the other hand, was levied on the provision of other services as well as the transfer of intangibles and real property. These two taxes, levied separately, cause inefficiency, double taxation and other unfair treatments. The current VAT pilot form is aimed at addressing these issues as a measure to streamlining China's national tax system. The reform was first introduced in Shanghai on 1 January 2012, and later expanded to eleven other regions. A variety of issues emerged during this transitional period a prevalent one of which is taxpayers subject to the pilot reform have not been able to obtain VAT special invoices from taxpayers outside of the pilot reform to set off against their output VAT, and vice versa. The upcoming nationwide implementation of the VAT reform is intended to resolve issues like this through unified tax treatment across the country.

Circular 37 contains a series of measures and regulations enhancing the policies that have proven to be effective during the pilot period. The four principal measures and regulations to this end are as follows:

- "Measures for Implementing the Pilot Scheme for replacing BT by VAT"
- "Regulation on Issues Concerning the Pilot Scheme for replacing BT by VAT"
- "Regulation on Transitional Policies Concerning the Pilot Scheme for replacing BT by VAT"
- "Regulation on Taxable Services Adopting Zero-Rated VAT and Enjoying Tax Exemption Policies"

The Circular will come into effect on 1 August 2013 when seven previously issued regulations which seemed to have caused inefficiency will at the same time be superseded.

China Releases Draft on WTO Trade Remedies and Dispute Settlements

China's Ministry of Commerce (MOC) released the "Interim Rules on the Implementation of WTO Trade Remedies and Dispute Settlements (Draft for Comments) (hereinafter referred to as the 'Rules')" on 28 May 2013, which is the first of its kind released by the MOC. The Rules offer a legal basis for Chinese administrative bodies to have discretion to modify or cancel relevant policies and measures based on WTO rulings, pursuant to the need to be consistent with the WTO agreements. MOC may carry out further investigations before making a decision on whether to revise or cancel the trade remedy or take other appropriate measures and interested parties will be given time to put forward comments and opinions. However there will be no retroactive effect in regard to amendments or cancellation of anti-dumping, countervailing and safeguarding measures. Taxes paid will not be refunded.

The release of the Rules comes as China, which is becoming a dynamic and a vital market for international businesses globally, has seen increasing trade friction with other major trading partners in recent years. It sends out signal that the government has become more interested in building the country's trade dispute legal system.

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.

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