SINO-BRIDGE
Consulting Group

China Business Advisory

2018 Issue 5 May 2018

TABLE OF CONTENTS

Further Clarification about Transformation to Small-scale VAT Taxpayers

As introduced in our last issue, eligible General Value-added Tax ("VAT") Taxpayers, whose annual taxable revenue is under the revised criterion of CNY5 million, can choose to adopt the status of Small-scale VAT Taxpayers for which a lower tax rate is applied. Further to this, more specific details were released in April by the State Administration of Taxation ("SAT") through a separate circular (Announcement No.18) which would come into effect on 1st May 2018.

Announcement No.18 outlines the conditions for a General VAT Taxpayer to switch to a Small-scale VAT Taxpayer, procedures to register the switch, grandfathering policies with regard to accumulated VAT input, invoice issuance, sales discount, cancellation and return as well as the criterion to switch back the status to a General VAT Taxpayer.

The key points of Announcement No. 18 are as follows:

- A General VAT Taxpayer may opt to switch its status to a Small-scale VAT Taxpayer, provided that its cumulative taxable sales amount does not exceed CNY 5 million within 12 consecutive months or four quarters prior to the switch time. The estimated annual taxable sales based on the monthly or quarterly average sales could be used in when the operating time of the taxpayer is less than 12 months or 4 quarters.

- The tax calculation method and filing procedures of Small-scale Taxpayer will apply subsequent to the switch time.

- A special account, "Tax payable - VAT input to be offset" needs to be maintained to record all the accumulative VAT credit and VAT input to be filed till the switch period. VAT relating to purchase, sales return, discount and cancellation of transactions prior to becoming a Small-scale VAT Taxpayer will be accounted for in this account as well.

- The special hardware for anti-counterfeit and administration VAT invoice will not be affected by the switch.

- A switched Small-scale VAT Taxpayer should change its status to a General VAT Taxpayer in the event that its cumulative taxable sales for 12 consecutive months or four quarters exceed CNY5 million. After this switch, it will not be allowed to switch back to a Small-scale VAT Taxpayer under any circumstances.

The new regulation will reduce the tax burden of numerous small- and medium-size enterprises in China, in particular those that are still at the initial stage of development in China.

Nevertheless, other factors should be taken into consideration before switching the status to a Small-scale VAT Taxpayer, for instance, invoice requirements of the customers, the impact to business model and flows. A tax analysis would be helpful to help businesses make a final decision.

New Corporate Income Tax Policy regarding Depreciation

For the purpose of encouraging long-term development of enterprises, the Ministry of Finance ("MOF") and SAT jointly issued Caishui [2018] No. 54 ("the Circular") on the new Corporate Income Tax ("CIT") policy regarding depreciation deduction of equipment and appliances.

The contents of the Circular can be summarized as below:

- Instead of being depreciated over its useful life, the purchase price of equipment and appliances that are newly bought between 1st January 2018 and 31st December 2020 with unit value of no more than CNY 5 million is fully deductible on a one-off basis upon purchase for CIT filing purpose.

- The equipment and appliances in the Circular are defined as all fixed assets excluding houses and buildings.

This new measure is expected to ease the tax burden of companies operating in industries which require intensive investment in equipment and appliances. It is also likely to boost R&D activities and upgrades of equipment enhancing the competitiveness of these companies in the long run. We will pay close attention to the implementation details and update our readers accordingly.

New Regulation of Individual Income Tax for Deferred Commercial Pension Insurance

On 2nd April 2018, five Chinese authorities, including MOF, SAT, Ministry of Human Resources and Social Security of the People's Republic of China, China Banking Insurance Regulatory Commission and China Securities Regulatory Commission jointly issued Caishui [2018] 22 ("Circular 22") to launch a Pilot Program of Individual Income Tax ("IIT") for deferred commercial pension insurance.

Circular 22 clearly specifies that, from 1st May 2018, the pilot scheme will be implemented in Shanghai, Fujian Province (including Xiamen City) and Suzhou Industrial Park, with a tentative period of one year.

Circular 22 clarifies the main content and administrative measures for the deduction of deferred commercial pension insurance when individual taxable income is calculated including:

- The expenses incurred by an individual in a pilot region to buy eligible commercial pension insurance products through his or her individual account for commercial pension funds, are deductible up to a certain amount for the calculation of Individual Income Tax. The current deduction threshold is 6% of his/her monthly/yearly income or CNY 1,000 per month (CNY 12,000 per year), whichever is lower;

- The returns on investment, counted into the individual account for commercial pension funds, are not subject to IIT temporarily.

- Instead, IIT will be levied when an individual collects the commercial pension. 25% will be tax exempt and the remaining 75% will be categorized as taxable income for calculating IIT.

- The commercial pension insurance products designed for individuals, mainly products pursuing robust investment and occasionally the risk-type products will be clearly listed on a catalog. Products for the pilot period refer to commercial pension insurance products that are developed by insurance companies under certain principles to satisfy the insured persons' demands in the safeguarding, profitability and long-term management of funds deposited in his/her pension accounts.

Based on the new regulations set forth by China authorities in the past 5 years, it is evident that the Chinese government has the intension of reforming the IIT system in order to make it more comprehensive and sophisticated. This in turn would ease the burden of taxpayers and enhance long-term competitiveness of the country.

Service Highlight

China continues to attract investors from all over the world as it is fast emerging as one of the largest markets. While continuous effort is put in to improve and simplify China's domestic regulations and administrative processes, it is important that investors are up to date with the changes and can adapt to them accordingly. Sino-Bridge is always well prepared and pleased to help investors to realize their full potential. Our Marketing Executive, Ms. Kimme Chan, looks forward to hearing from you at (852) 3579 8745 or kimmechan@sinobridge-consulting.com for any assistance and support we could provide you with.

SINO-BRIDGE
Consulting Group

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

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

Website: www.sinobridge-consulting.com
E-mail: info@sinobridge-consulting.com
Telephone: (852) 3579 8745

Hong Kong Guangzhou Shanghai Lyon

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