SINO-BRIDGE
Consulting Group

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Think More about the Tax Reform Impact to You

We have been paying close attention to the current pilot Value Added Tax ("VAT") reform program across some provinces and cities in China and had a series of writing on this in the past CBA circulations. Our latest reminder to our readers is additional to the tax rate changes, tax payers need to think more comprehensively about the impacts of the reform on their operation to make proper decisions in good time in their best interests. To this end the following points are worthy of your consideration:

- Business Tax ("BT") is included in the sales price while VAT is excluded. For illustration a tax payer charges a customer RMB10,000. If BT is paid at 5%, the revenue is RMB10,000 and BT is RMB500. If VAT is applied at 6%, the revenue is RMB9434 or RMB10,000/(1+6%), and output VAT is RMB566.
- Due to the above difference, the revenue will change after VAT replaces BT and Corporate Income Tax ("CIT") will be affected accordingly.
- VAT payable depends on how much output VAT could be offset by input VAT (the amount of which depends on your specific business situation) whereas BT is paid according to taxable turnover (which might be net of certain creditable items according to the local regulation).
- Further tax and surcharges including Urban Maintenance and Construction Tax ("UMCT"), Education Surcharge ("ES") and Local Education Surcharge ("LES") need to be paid on top of

and based on VAT or BT that has been paid. These tax and surcharges will vary with the BT or VAT actually paid.

- You will most likely need to negotiate with your customers and/or suppliers to share benefits/additional costs resulting from the tax reform.
- Local governments may provide fiscal subsidies to tax payers whose actual tax burden is heavier due to the reform.

In the light of the above, adequate analysis of the impacts of the tax reform on your business and that of your customers and supplier is very necessary for the negotiation.

A Series of Supports to Improve Export

In view of the continuous decline of export in the recent months, the State Council issued a circular in September 2012, Guobanfa [2012] No. 49, aiming at stabilizing the growth of foreign trade. Since then different authorities have released various measurements including the following for effectuating the objectives behind the Circular:

- Caishui [2012] No. 39 jointly issued by State Administration of Taxation ("SAT") and Ministry of Finance ("MOF") and some other relevant circulars to make export tax refund easier and prompter (our August Edition referred);
- Huifa[2012] No. 38 released by State Administration of Foreign Exchange ("SAFE") to ease the foreign exchange controls (our September Edition referred);
- Shucaifa[2012] No. 383 signed by General Administration of Customs to cancel certain official service charges, including document printing fee, supervision fee and barcode charge;

It is recommended to contact your relevant local authorities to learn of the necessary details to fully enjoy the relevant benefits.

Unified Supporting Document for Air Travels

A special invoice provided by tax authority is used at present for international air travels for the payment and tax deduction purposes whereas the paper travel itinerary has been used for domestic air travels for a number of years. The two different documents will be unified from next year. SAT and Civil Aviation Administration of China ("CAAC") jointly issued a circular on 30 August 2012, Guoshuifa [2012] No. 83, to state that the paper travel itinerary printed by a special official software will be adopted for payment and tax deduction purposes from 1 January 2013 to replace the current special invoice. Tax payers need to pay attention to this change and request for proper documents from international air travel service providers to support their claim for tax deductible expenses to avoid potential tax issues.

Pilot Program on Creditability of input VAT from Agricultural Products

VAT system in China is a chain in which tax payers can carry forward taxes paid indicated on the VAT Special Invoice from the suppliers. However, at the very source of the chain of certain industries (say the agriculture industry), the situation is special. Since farmers are not able to provide any invoices, the authority has been allowing agricultural product purchasers to claim for input VAT with a special invoice issued by themselves. Not surprising many tax payers inflated their input VAT and the authority became more and more rigorous with their scrutiny in this area. In April this year, SAT and MOF jointly released a circular (Caishui [2012] No. 38) to kick off a pilot reform in some relevant industries to rectify the system. The Circular basically adopted a deemed basis for input VAT to be effective from 1 July 2012 on producers of milk and dairy products, wine and alcohol and vegetable oil who use agricultural products as their raw materials. We would like to remind relevant readers to study this in detail, review the business situation and appropriately communicate with the relevant authority for an arrangement in their best interests.

Service Highlight

It is always our commitment to help our clients to be compliant with regulations and at the same time not to miss any benefits relevant to their business operations in China. To this end and with special regard to the current VAT reform, you are encouraged to contact our Marketing Executive, Ms Mary Li, on +852 3579 8745 or email her at maryli@sinobridge-consulting.com for any advice you may need.

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