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CHINA TAX UPDATES

CHINA VAT RATE LOWERED FROM APRIL 1, 2019

A notice (Cai Shui [2019] No. 39) has jointly released by Ministry of Finance of China and State Administration of Taxation of China on March 20, 2019, stipulating that the VAT rate applicable to manufacturing and trading industry shall be reduced to 13% from the current 16%, for transportation, construction and basic telecommunications services and agricultural products sector, the VAT rate shall be lowered to 9% from 10%. The aforesaid adjustment shall take effect from April 1, 2019. After the adjustment, the VAT rate shall be divided into five levels, 13%, 9%, 6%, 3% and 0%.

- This time's VAT rate adjustment does not cover service type enterprise qualified as VAT general taxpayers and enterprises of VAT small-scale taxpayers, and the applicable VAT rate of which remains as 6% and 3% respectively. For other types of enterprises qualified as VAT general taxpayers, the applicable VAT rate drops from 16% and 10% to 13% and 9% respectively. The adjustment has reduced the tax burden and put a positive impact on these enterprises' operation.

Applicable Scope	Current VAT Rate	New VAT Rate Effective from April 1, 2019
Applicable to taxpayers selling goods, rendering processing or repairing services, renting tangible and movable assets and importing goods	16%	13%
Applicable to taxpayers rendering transportation, postal, basic telecommunications and construction services, renting or selling immovable properties, assigning land use rights, selling or purchasing goods like agricultural products, tap water, natural gas, etc.	10%	9%
<p>Note: For taxpayers purchasing agricultural products used for production and sales or consigned processing with applicable VAT rate of 13%, the input VAT shall be calculated by adopting a 10% deduction rate.</p>		

2. The rebate rate shall also be decreased due to this VAT rate adjustment. The adjusted rebate rate shall be divided into seven levels with 0%, 5%, 6%, 8%, 9%, 11% and 13%, subject to HS code of the exported goods.

Applicable Scope	Current Rebate Rate	New Rebate Rate
Applicable to exported goods currently with 16% VAT rate and 16% export rebate rate	16%	13%
Applicable to exported goods and cross-border taxable behaviors currently with 10% VAT rate and 10% export rebate rate	10%	9%

3. For taxpayers purchasing domestic passenger transportation services, the relevant input VAT is allowed to be deducted from the output VAT. Taxpayers who have not obtained VAT special invoices shall comply with the following provisions to determine the input VAT:

- (1) The input VAT is the tax indicated on the invoice if electronic VAT general invoice could be obtained.
- (2) The input VAT is calculated according to the following formula if the air transportation e-ticket and itinerary with passenger's identity information could be obtained.

$$\text{Input VAT of Air Passenger Transportation} = (\text{Ticket Price} + \text{Fuel Surcharge}) / (1+9\%) * 9\%$$

- (3) The input VAT is calculated according to the following formula if the railway ticket with passenger's identity information could be obtained.

$$\text{Input VAT of Railway Passenger Transportation} = \text{Ticket Price} / (1+9\%) * 9\%$$

- (4) The input VAT is calculated according to the following formula if highway, waterway and other tickets with passenger's identification information could be obtained.

$$\text{Input VAT of Highway, Waterway and other Transportation} = \text{Ticket Price} / (1+3\%) * 3\%$$

4. Input VAT on immovable property or immovable property under construction shall not be deducted in 2 years any more. The input VAT which has not been deducted in full amount according to the previous provisions, can be deducted from the output VAT since April 2019.
5. During the period from April 1, 2019 to December 31, 2021, the taxpayers in production and living service industries are allowed to add 10% of input VAT deductible in the current period to offset the taxable amount. The term "taxpayer in production and living service" refers to the taxpayer whose sales generated by providing postal services, telecommunication services, modern services and life services (hereinafter referred to as the four services) accounts for more than 50% of the total sales.

Table of Tax Rate and Taxable Items Applicable to Production and Living Service Industries

Industries	Taxable Items	VAT Rate	
Postal Services	Mail Services Rendered by China Post Group Corporation	9%	
Telecommunication Services	Basic Telecommunication Services	9%	
	Value-added Telecommunication Services	6%	
Modern Services	Research & Development and Technical Services, Information Technology Services, Culture Creativity Services, Logistics Support Services, Authentication and Consulting Services, Radio, Film and Television Services, Business Support Services, Enterprises Management Services, Brokerage Agency Services, Human Resource Services, Security Services.	6%	
	Rental Services	Immovable Property Financing Lease and Operating Lease	9%
		Tangible and Movable Property Financing Lease and Operating Lease.	13%
Life Services	Culture and Sport Services, Education and Medical Services, Tourism and Entertainment Services, Catering and Accommodation Services, Daily Services.	6%	

6. From April 1, 2019, the refund for the closing balance of retained VAT credit will be piloted. Taxpayers who meet all of the following criteria may apply for the refund of the incremental tax credit with the tax authorities:
- (1) From April 2019, the incremental tax credit for six consecutive months (for quarterly declaration, two consecutive quarters) is greater than zero, and the incremental tax credit for the sixth month is not less than RMB 500,000;
 - (2) The tax credit rating shall be A or B;
 - (3) There is no case of defrauding tax credit and export tax refunds or falsely issuing VAT special invoices within 36 months before applying for tax refunds;
 - (4) The taxpayers have not been punished twice or more by tax authorities for tax evasion within 36 months before applying for tax refund;
 - (5) The taxpayers have not enjoyed the policy of immediate levy and refund, levy first and return later (refund) since April 1, 2019.

7. Kaizen would like to kindly remind you to pay attention to the issues including but not limited to below items during the process of VAT rate adjustment:
- (1) For goods or taxable behaviors purchased before March 31, 2019, it is advisable to claim and obtain relevant VAT input invoices on or before March 31, 2019, otherwise, the deductible input VAT might be reduced, and the purchasing cost shall increase.
 - (2) For goods or taxable behaviors sold before March 31, 2019, it is advisable to issue VAT output invoices on or before March 31, 2019. Since April 1, 2019, the output VAT invoices shall be issued based on the adjusted rate of 13% or 9%.
 - (3) The authentication period of VAT input invoices is 360 days. This time's VAT rate adjustment shall not affect the authentication of obtained input VAT invoices with current rate. Despite this, it is still advisable to arrange the invoice authentication at the earliest convenience.
 - (4) Where the tax rate or tax-inclusive price is stipulated in the sales or service contracts, it is advisable to negotiate with the other party whether to revise the contracts or the price at the earliest convenience.
 - (5) Due to the decrease of tax rate, it is advisable to review and make proper adjustments of the pricing of goods or services to avoid negative impact on the enterprises' marketing competitiveness.
 - (6) The input VAT for passenger transportation service is allowed to be deducted from April 1, 2019. It is advised that the enterprise staff shall keep relevant receipts and try their best to obtain VAT invoices when transportation or travel expenses related to transportation services incur.

This article is for Kaizen's current and potential clients' reference only. Kaizen would like to advise you to seek for professional suggestions with tax consultants in advance. If you have any question, please feel free to contact us.

If you wish to obtain more information or assistance, please visit the official website of Kaizen CPA Limited at www.bycpa.com or contact us through the following and talk to our professionals:

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