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**CHINA TAX  
NOTICE ON ADJUSTMENT OF VAT RATE**

A notice (Cai Shui [2018] No. 32) has jointly released by Ministry of Finance and State Administration of Taxation on April 4, 2018, stipulating that the VAT rate applicable to manufacturing and trading industry shall be decreased from the current 17% to 16%, for transportation, construction and basic telecommunications services and agricultural products sector, the VAT rate shall be adjusted from 11% to 10%. The aforesaid adjustment shall take effect from May 1, 2018. After the adjustment, the VAT rate shall be divided into four levels, 16%, 10%, 6% and 3%.

1. This time's VAT rate adjustment does not cover service type enterprise qualified as VAT general taxpayer and enterprises of VAT small-size taxpayer, and the applicable VAT rate of which remains as 6% and 3% respectively. For other types of enterprises qualified as VAT general taxpayer, the applicable VAT rate drops from 17% and 11% to 16% and 10% respectively. The adjustment has reduced the tax burden and put a positive impact on these enterprises' operation.

<b>Applicable Scope</b>	<b>Current VAT Rate</b>	<b>New VAT Rate</b>
Applicable to taxpayers selling goods, rendering processing or repairing services, renting tangible and movable assets and importing goods	17%	16%
Applicable to taxpayers rendering transportation, postal, basic telecommunications and construction services, renting or selling real assets, assigning land use rights, selling or purchasing goods like agricultural products, tap water, natural gas, etc.	11%	10%

Note: For taxpayers purchasing agricultural products used for production and sales or consigned processing with applicable VAT rate of 16%, the input VAT shall be calculated by adopting a 12% deduction rate.

2. The rebate rate shall also be decreased due to this VAT rate adjustment. The adjusted rebate rate shall be divided into eight levels with 0%, 5%, 6%, 9%, 10%, 13%, 15% and 16%, subject to HS code of the exported goods.

<b>Applicable Scope</b>	<b>Current Rebate Rate</b>	<b>New Rebate Rate</b>
Applicable to exported goods currently with 17% VAT rate and 17% export rebate rate	17%	16%
Applicable to exported goods and cross-border taxable behaviours currently with 11% VAT rate and 11% export rebate rate	11%	10%

The transitional period for the adjustment of VAT rebate rate is until July 31, 2018. Below is the rebate rate applicable before and after the transitional period.

<b>Applicable Scope</b>	<b>Export on/before July 31, 2018</b>	<b>Export on/after August 1, 2018</b>
Foreign trade enterprises	The goods or cross-border behaviours levied with 17% or 11% of VAT rate when purchase, the applicable rebate rate is the current rate	Applicable to new rate
	The goods or cross-border behaviours levied with 16% or 10% of VAT rate when purchase, the applicable rebate rate is the new rate	
Manufacturing enterprises	Applicable to current rate	

3. For VAT general taxpayer enterprises not classified into service industry, we 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 April 30, 2018, it is advisable to claim and obtain relevant VAT input invoices on or before April 30, 2018, otherwise, the deductible input VAT might be decreased and the purchasing cost shall increase.
  - (2) For goods or taxable behaviors sold before April 30, 2018, it is advisable to issue VAT output invoice on or before April 30, 2018. Since May 1, 2018, the output VAT invoice shall have to be issued based on the adjusted rate of 16% or 10%.
  - (3) The authentication period of VAT input invoice 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) In case red invoice is required to issue due to sales return or other situations, the red invoice is advised to be issued before April 30, 2018.

- (5) The transitional period for trading or manufacturing enterprises requiring export rebate is until July 31, 2018. Since August 1, 2018, new adjusted rebate rate shall be adopted. Goods or cross-border behaviours purchased and relevant input VAT invoices obtained before April 30, 2018 are advised to be exported before July 31, 2018, otherwise, the export rebate rate shall be decreased. Accordingly, the cost shall increase and profit lower down.
- (6) 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.
- (7) Due to the decrease of tax rate, it is advisable to review and make proper adjustment of the pricing of goods or services to avoid negative impact on the enterprises' marketing competitiveness.
- (8) After the adjustment of VAT rate, enterprises might meet several issues related to VAT rate during the daily operation, which have to be further consulted with the competent tax officers since no relevant regulations issued yet, the aforesaid issues may include but not limited to below items:
  - A. With regard to goods purchased before April 30, 2018, in case of sale equivalent behaviours incurs on or after May 1, 2018, how to determine the applicable VAT rate?
  - B. For goods sold before April 30, 2018 and returned on or after May 1, 2018, how to determine the applicable VAT rate of the red invoice? Or how to determine the applicable VAT rate in case the suppliers changed into VAT small-size taxpayer with 3% VAT rate?
  - C. Where the suppliers applied for input VAT offset before changing to VAT small-size taxpayer, how to determine the applicable VAT rate in case of sales returns?
  - D. Due to the assets function change, the originally deductible input VAT is not allowed to deduct, how to determine the applicable VAT rate?

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

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[Appendix 1]

### **Notice on Adjustment of VAT Rate**

Jointly Released by Ministry of Finance and State Administration of Taxation  
Cai Shui [2018] No. 32

To finance bureaus, state tax bureaus and local tax bureaus of all provinces, autonomous regions, direct-controlled municipalities and proposed municipalities and finance bureau of Xinjiang production and construction corps:

To improve the value-added tax system, the value-added tax adjustment related policies are hereby notified as below:

1. For taxpayers with sales or imports activities currently levied 17% or 11% of VAT, the applicable VAT rate shall be adjusted to 16% or 10% respectively.
2. For taxpayers purchasing agricultural products currently levied 11% of VAT, the applicable VAT rate shall be adjusted to 10%.
3. For taxpayers purchasing agricultural products used for production and sales or consigned processing with applicable VAT rate of 16%, the input VAT shall be calculated by adopting a 12% deduction rate.
4. For exported goods currently applicable to 17% VAT rate and 17% of export rebate rate, the export rebate rate shall be adjusted to 16%; for exported goods and cross-border taxable behaviors currently applicable to 11% VAT rate and 11% of export rebate rate, the export rebate rate shall be adjusted to 10%.
5. Foreign trading enterprises exporting goods or selling cross-border taxable behaviors as stipulated by clause 4 before July 31, 2018, where the goods exported are levied with VAT rate before the adjustment when purchase, the applicable export rebate rate shall be the rate before adjustment. Otherwise, it shall adopt the adjusted rate. Manufacturing enterprises exporting goods or selling cross-border taxable behaviors as stipulated by clause 4 before July 31, 2018 shall adopt the export rebate rate before the adjustment.
6. This notice shall take effect on May 1, 2018. It shall prevail in case any previously released provisions are inconformity with it in relation to VAT rate, deduction rate and export rebate rate.
7. All parties shall pay high attention to the VAT adjustment work arrangement, make full preparations, supervision, analysis, publicity and explanations before and in the process of its implementation, to ensure the adjustment could be carried forward steadily and sequentially. Any questions, please report to ministry of finance and state administration of taxation in time.

Ministry of Finance & State Administration of Taxation  
April 4, 2018