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China Tax: Cai Shui [2019] No. 39

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CHINA TAX UPDATES
ANNOUNCEMENT ON RELATED POLICIES FOR DEEPENING VAT REFORM
Cai Shui [2019] No. 39

In order to implement the decisions and arrangements made by the Central Committee of the Communist Party of China (CCCPC) and the State Council and promote the substantial reduction of VAT, the relevant issues concerning VAT reform in 2019 are hereby announced as follows:

1. For general VAT taxpayers (in this Announcement referred to as "taxpayers") who have VAT taxable behaviours or import goods, the applicable tax rate shall be adjusted from the original tax rate of 16% and 10% to 13% and 9% respectively.
2. For taxpayers who purchase agricultural products, the deduction rate shall be adjusted from the original rate of 10% to 9%. For taxpayers who purchase 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.
3. For export goods and services where the original tax rate 16% is applicable and the export tax rebate rate is 16%, the export tax rebate rate shall be adjusted to 13%; For export goods and cross-border taxable activities where the original tax rate 10% is applicable and the export tax rebate rate is 10%, the export tax rebate rate shall be adjusted to 9%.

Before June 30, 2019 (including before April 1, 2019), taxpayers who apply to the VAT exemption and VAT rebate, exporting goods involved services in the preceding paragraph and incurring cross-border taxable behaviours involved in the preceding paragraph, if the taxpayers purchased according to the original VAT rate before the adjustment, the original export tax rebate rate before the adjustment need to be applied, if the taxpayers purchased according to the VAT rate after the adjustment, the export tax rebate rate after the adjustment need to be applied; When the VAT exemption, offset and refund is applicable and the export tax rebate rate before the adjustment is used, if the applicable tax rate is lower than the export tax rebate rate for the calculation for the tax amount for exemption, offset and refund, the difference between the applicable tax rate and the export tax rebate rate shall be deemed as zero in the calculation for the tax amount of the tax exemption, offset and refund.

The time of execution of the export tax rebate rate and the time of the occurrence of export goods and services and the occurrence of cross-border taxable behaviours shall be implemented in accordance with the following provisions:

For goods and services declared at the customs for export (except those exported in bonded areas and through bonded areas), the export date shall be indicated on the customs export declaration form;

For goods and services and cross-border taxable behaviours not declared for export, the export date shall be the time for issuing export invoice or general invoice;

For goods exported from or through the bonded area, the export date shall be indicated on the record list of outbound goods issued by the customs at the time of departure.

4. For the goods purchased by overseas passengers which applicable to the tax rate of 13%, the tax rebate rate shall be 11%; the goods purchased by overseas passengers which applicable to the tax rate of 9%, the tax rebate rate shall be 8%.

Before June 30, 2019, if VAT is collected at the rate before the adjustment, the tax rebate rate before the adjustment shall be applied; Where VAT is levied at the rate after the adjustment, the tax rebate rate after the adjustment shall be applied.

The execution time of the tax rebate rate shall be subject to the issuing date of the general VAT invoice.

5. From April 1, 2019, the provisions on Related Issues of the Pilot Project of Replacing Business Tax with VAT (Cai Shui [2016] No.36) item (4) point 1 of Article 1 and item (1) point 1 of Article 2 shall cease to be implemented, 4, and the input tax on immovable property or immovable property construction in process shall not be deducted in 2 years any more. The input tax which has not been deducted before according to the previous provisions, can be deducted from the output tax since April 2019.
6. Applicable to taxpayers purchasing domestic passenger transportation services, the input tax shall be deducted from the output tax.
 - (1) For taxpayers who have not obtained special VAT invoices, input tax shall be determined temporarily in accordance with the following provisions:
 - a. The input tax amount shall be indicated on the general electronic VAT invoices obtained.
 - b. The input tax amount shall be calculated according to the following formula for the air e-ticket obtained with passenger's identity information.

$$\begin{aligned} & \text{Input Tax of Air Passenger Transportation} \\ & = (\text{Ticket Price} + \text{Fuel Surcharge}) / (1+9\%) * 9\% \end{aligned}$$

- c. The input tax amount shall be calculated according to the following formula for the railway ticket obtained with passenger's identity information.

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

- d. The input tax amount shall be calculated according to the following formula for highway, waterway and other tickets obtained with passenger's identification information.

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

- (2) The provisions on Pilot Scheme Replacing Business Tax with Value Added Tax (Chai Shui [2016] No.36) item 6 of Article 27, and on Related Issues of the Pilot Project of Replacing Business Tax with VAT (Cai Shui [2016] No.36) point 5 item 1 of Article 2 stipulating 'the purchase of passenger transport service, loan services, catering services, daily services and entertainment services 'change to" the purchase of loan services, catering services, daily service and entertainment services" .
7. From April 1, 2019 to December 31, 2021, the taxpayers of production and living service industries are allowed to add 10% of input tax deductible in the current period to offset the taxable amount (in this Announcement referred to as additional deduction policy).
- (1) The term "taxpayer of production and living service" refers to the taxpayer whose sales volume obtained by providing postal services, telecommunication services, modern services and life services (in this Announcement referred to as the four services) accounts for more than 50% of the total sales volume. The specific scope of the four services shall be implemented in accordance with the Notes on Sales Services, Intangible Assets and Real Estate (Cai Shui [2016] No. 36).

For taxpayers registered before March 31, 2019, if the sales volume meets the above criteria during the period from April 2018 to March 2019 (if the operating period is less than 12 months, the sales volume meets the above criteria in the actual operating period), the additional deduction policy shall apply from April 1, 2019.

For taxpayers registered after April 1, 2019, if the sales volume for the three months from the date of registration meets the above criteria, the additional deduction policy shall apply from the date of registration as a general taxpayer.

There are no adjustments allowed to be made within the current year after the taxpayer determines the application of the additional deduction policy. Whether the policy is applicable in the following years shall be determined based on the calculation of the sales volume of the last year.

The additional deduction amount which can be accrued but not accrued by a taxpayer may be accrued together on the period in that the additional deductions are determined to be applied.

- (2) The taxpayer shall accrue 10% of the deductible input tax as additional deduction amount at the current period. In accordance with the current provisions, for input tax which are not allowed to deduct, no additional deduction shall be made; If the input tax amount for which an additional deduction has been accrued, the input tax shall be transferred out in accordance with the provisions, the corresponding amount of the additional deduction shall be adjusted in the current period when the input tax amount is transferred out. The calculation formula is as follows:

*Accrued additional deduction amount at current period = current deductible input tax * 10%*

Deductible additional deduction amount at current period = The balance of the additional deduction amount at the end of last period + The amount of the additional deduction at the current period - The amount of the additional deduction at the current period

- (3) After a taxpayer calculating the taxable amount under the general tax calculation method in accordance with the current provisions (in this Announcement referred to as the taxable amount before deduction), additional deduction shall distinguish under the following situations:
- a. If the taxable amount is zero before the deduction, the deductible amount of additional deduction can be carried over to the next period;
 - b. If the taxable amount is more than zero before the deduction and is also more than the deductible amount of additional deduction for the current period, the total amount of deductible additional deduction for the current period shall be deducted from the amount of taxable amount before the deduction;
 - c. If the taxable amount is more than zero before the deduction and is less than or equal to the deductible additional deduction for the current period, the taxable amount for the current period shall be reduced to zero based on the amount of deductible additional deduction. In the current period, the amount of uncompleted deductible additional deduction can be carried over to the next period.
- (4) For taxpayers exporting goods and services or engaging in cross-border taxable behaviors, the additional deduction policy shall not apply, and the corresponding amount of input tax shall not be calculated for the amount of the additional deduction.

The input tax for taxpayers concurrently engaged in export goods and services, engaging in cross-border taxable behaviors, and unable to divide the input tax for which no additional deduction is allowed shall be calculated according to below formula:

*Input tax amount on which an additional deduction is not allowed = All input tax that cannot be divided for the current period * Sales volume of export goods and services and cross-border taxable behavior of current period / Total sales volume of current period*

- (5) Taxpayers shall separately calculate the accrual, deduction, adjustment of deduction and balance of the additional deduction. Anyone who fraudulently applies the additional deduction policy or falsely inflates the amount of additional deduction shall be dealt with the cases in accordance with the Law of the People's Republic of China on the Administration of Tax Collection and other relevant provisions.
 - (6) After the expiration of the additional deduction policy, the taxpayer will no longer deduct the additional deduction amount, and the additional deduction amount of the remaining balance will cease to be deducted.
8. From April 1, 2019, the refund regulations for VAT tax credit have been put into practice on a trial basis.
- (1) At the same time, taxpayers who meet the following criteria may apply the refund of the incremental tax credit to tax authorities:
 - a. 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;
 - b. The credit level rating shall be A or B;
 - c. There is no defrauding for tax credit, export tax refunds or falsely issue special VAT invoices within 36 months before applying for tax refunds;
 - d. Have not been punished twice or more by tax authorities for tax evasion within 36 months before applying for tax refund;
 - e. Have not enjoy the policy of levying and withdrawing at once, levying first and returning later (withdrawing) since April 1, 2019.
 - (2) The term 'incremental tax credit' stated in this announcement refers to the newly increased tax credit compared with the end of March 2019.
 - (3) The incremental tax credit that is allowed to be returned by a taxpayer for the current period shall be calculated according to the below formula:

$$\text{Allowable return of incremental tax credit} = \text{Incremental tax credit} * \text{Proportion of input tax} * 60\%$$

The proportion of input tax refers to the proportion of the VAT amount indicated in the VAT special invoice (including the unified invoice for the sales of motor vehicles), the customs import VAT special payment form and the tax payment receipt in the total deducted tax for the current period in the period from April 2019 to the last period of application for tax refund .

- (4) Taxpayers shall apply to the competent tax authorities for the refund of the tax credit within the period of VAT declaration.

- (5) For taxpayers exporting goods and services or engaging in cross-border taxable behaviors and apply for the tax exemption, offset and refund return, the tax credit shall be applied for the refund if the conditions specified in this announcement are still met.
 - (6) The taxpayers shall make a corresponding reduction in the current tax credit after obtains the refunded tax credit. If the taxpayers meet the conditions for tax refund again in accordance with the provisions of this article may continue to apply to the competent tax authorities for the refund of tax credit, however, the continuous period specified in point of item 1 of this article shall be not allowed for double counting.
 - (7) Tax authorities shall recover the tax refunds which are fraudulently obtained through false promotion, false declaration or other deceptive means, and deal with the cases in accordance with the relevant provisions of the Law of the People's Republic of China on the Administration of Tax Collection.
 - (8) The central and local sharing mechanism for refund of increment tax credit will be notified separately.
9. This notice shall take effect from April 1, 2019

Announcement is hereby.

The Ministry of Finance,
State Administration of Taxation,
General Administration of Customs
March 20, 2019

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

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