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## Brief introduction on Tax-related Issues for Finance Lease

Finance lease is a new type of business in finance sector. It integrates finance lease and asset lease, trading and technology renovation. The credential and guarantee requirements are not strict for finance lease. Compared with loan, finance lease has fewer restrains and can meet the financing needs of small and medium-sized enterprises more quickly.

### 1. Calculation of sales revenue

- (1) Pilot taxpayers approved by the People's Bank of China, China Banking Regulatory Commission or the Ministry of Commerce:

The sales revenue shall be the sum of consideration and extra charges after deducting the loan interest (including loan interest of foreign exchange and RMB), bond interest and vehicle purchase tax.

- (2) Pilot taxpayers approved by provincial commercial departments and the national economic and technological development zones that authorized by Ministry of Commerce:

If paid-up capital reaches RMB170 million after the 1<sup>st</sup> May 2016, the calculation method is the same as the above-mentioned from the month that met the standard;

If paid-up capital is less than RMB170 million whereas the registered capital reaches RMB170 million after 1 May 2016, the sales revenue shall be the consideration and extra charges after the 1<sup>st</sup> August 2016.

### 2. Tax preferential policies

- (1) Corporate Income Tax:

Depreciation period should be the shorter of the lease term or the legal depreciation period, under the condition that enterprises rent the machines or equipment through finance lease.

- (2) Value Added Tax:

- (a) Pilot taxpayers approved by the People's Bank of China, China Banking Regulatory Commission or the Ministry of Commerce:

General taxpayers provide finance leasing services for tangible movable assets, the part of VAT tax burden that exceeds 3% will be refunded immediately.

(b) Pilot taxpayers approved by provincial commercial departments and the national economic and technological development zones which authorized by the Ministry of Commerce:

After the 1<sup>st</sup> May 2016, if the paid-up capital reaches RMB170 million, the part of VAT tax burden that exceeds 3% will be refunded immediately from the month that met the standard;

After the 1<sup>st</sup> August, if the paid-up capital is less than RMB170 million whereas the registered capital reaches RMB170 million after the 1<sup>st</sup> May 2016, the finance lease businesses are not allowed to enjoy the preferential policy of VAT refund anymore.

**3. Tax-saving effects of finance lease**

The depreciation of assets that obtained by finance lease can be deducted when calculating corporate income tax, and the input VAT of the rent can be used to offset output VAT. Compared to loan interest whose input VAT shall not be deducted, finance lease can lower the cost of acquiring assets as well as reduce tax burden. Finance lease also helps to accelerate the circulation of commodities, expand domestic demand and ease the financing difficulties of small medium-sized enterprises, which plays an important role in promoting industrial innovation and upgrading and driving the development of emerging industries.

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

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