

VAT update

Summary

As part of the overall strategy to reduce corporate tax burden, the Ministry of Finance, the State Administration of Taxation and the General Administration of Customs jointly issued a circular (Circular [2019] No. 39) on March 20, 2019. Highlights of Circular 39 include the following:

1. Reduction of tax rates
2. Extra deduction and newly allowed deduction
3. Refund of input VAT

The above changes brought about by Circular [2019] No. 39 take effect on April 1, 2019.

Details

1. Reduction of tax rates

Sales of goods and leasing of movable properties benefit the most, with the applicable VAT rate reduced from 16% to 13%. The rate for transportation, basic telecommunication, construction, real estate leasing, sale of real properties and land use right is reduced slightly from 10% to 9%. The rate for all other industries and services remain unchanged at 6%. Small-scale taxpayers continue to be taxed at 3%.

Corresponding to the tax cut, export VAT refund rates of 16% and 10% are lowered to 13% and 9% respectively.

2. Extra deduction

Tax payers with more than 50% of their revenue derived from postal services, telecom services, modern services and livelihood services are allowed to deduct an extra amount equal to 10% of the current period input VAT, starting from April 2019 to March 2020. For example, if the deductible input VAT in April is RMB 4,000,000, the qualified tax payers can deduct 4,400,000 from its sales VAT. The balance of the extra deduction, like the usual input VAT, can be carried forward, but the circular does not specify whether the balance can be carried forward beyond the March of 2020, should this extra deduction policy expire without extension at that time. Extra deduction is not applicable for export of goods and services.

3. Deduction of input VAT from passenger transportation allowed

This newly allowed deduction can lead to considerable cost savings to companies that have a lot of travelling costs. At present, input VAT from passenger transportation cannot be used as VAT credit. Starting from April 1, 2019, the amount of VAT as shown in the ordinary digital VAT invoices, 9% of air or train tickets and 3% of road or waterway transportation tickets can be claimed as VAT credit. To

claim VAT credit from tickets, passenger information must be shown on the tickets. While passenger information is on air and train tickets, it remains to be seen how passenger information can be made on taxi tickets.

4. Refund of input VAT

This is the first time that refund of input VAT is allowed, and it is understandable that the threshold for this refund is quite high. To be eligible for the refund, the incremental input VAT over the balance of the input VAT at the end of March 2019 should be positive for 6 consecutive months prior to the application of the refund and the incremental input VAT of the 6th month should be no less than RMB 500,000.

The amount of the tax refund is calculated according to the following formula:

$$\text{Tax refund} = \text{total incremental input VAT} \times \text{composition of deducted input VAT} \times 60\%$$

Composition of deducted input VAT is the ratio of input VAT deducted according to special VAT invoices, customs invoices and tax payment certificates to the total deducted input VAT of the period. Usually this ratio is equal to 1, but sometimes it can be smaller. For example, additional deduction can make total deducted input VAT larger than deductions based on official invoices. It is clear from the above formula that the maximum refund available is 60% of the total incremental input VAT over the period concerned.

It should be noted that not all exporters are eligible for the refund, depending on the way how export VAT refund is calculated. For example, trading companies cannot apply for refund of their input VAT.

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