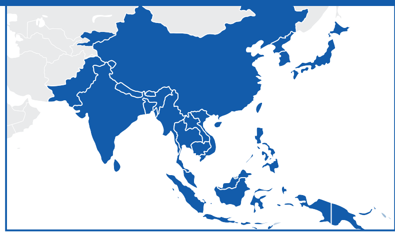

China VAT reform: The basics

Introduction:

The Chinese Ministry of Finance (MOF), State Taxation Administration (STA) and General Administration of Customs of China (GACC) announced value-added tax (VAT) reforms effective from 1 April 2019. These new VAT policies and implementation rules will significantly progress China's efforts to better align its VAT rules with OECD principles.

The Chinese Government passed VAT reforms for current general VAT payers' sales activities and imports that are subject to VAT at an existing applicable rate of 16% to 10%, to the applicable VAT rate adjusted between 13% to 9% respectively from the 1 April 2019.

The Three Important Changes

1. For the exportation of goods or labour services that are subject to VAT at 16%, with the applicable export refund at the same rate, the export refund rate is adjusted to 13%. For the exportation of goods or cross-border taxable activities that are subject to VAT at 10%, with the export refund at the same rate, the export refund rate is adjusted to 9%.

2. The government will keep the tax rate unchanged for the first year at 6% but will ensure that the tax burden of all industries is reduced rather than increased by taking additional measures, such as increasing the tax breaks on production and life services. From April 1, 2019, to December 31, 2021, taxpayers working in a production or living services are allowed to offset the amount of payable tax in accordance with the current deductible input tax plus 10%. "A taxpayer engaged in production or life service" mentioned in this Announcement refers to any taxpayer providing postal, telecommunications, modern, or life services (hereinafter referred to as "Four Services") and whose income from these services accounts for more than 50% of their total sales.

3. Where a taxpayer purchases domestic transit services, its input VAT is allowed to be credited against its output tax.

Produced by MGI member

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VAT Invoices and Formulas

It is very important to note that the VAT can only be deducted if the bill is obtained after 1 April 2019. If the taxpayer fails to obtain a proper VAT invoice, its input VAT should be determined for a time according to the provisions below:

Electronic Invoices: In the case that the taxpayer has obtained an electronic VAT invoice, its input VAT should be the tax amount indicated on the invoice.

Air Travel Invoices: In the case that the taxpayer has obtained an E-ticket for air transport with passenger identification information.

- Formula: Input VAT on air passenger transport = (ticket price + fuel surcharge) ÷ (1+9%) × 9%

Rail Travel Invoice: In the case that the taxpayer has obtained a railway ticket with the passenger identification information

- Formula: Input VAT on rail passenger transport = value of the ticket ÷ (1+9%) × 9%

Transit Invoice: In the case that a road, waterway, or other passenger tickets with the passenger identification information is obtained.

- Formula: Input VAT on road, waterway, or other passenger transport = value of the ticket ÷ (1+3%) × 3%

VAT Reform

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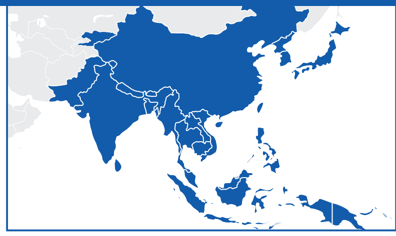

What Cannot Be Deducted

No Identity Information: Some bills will not print passenger identity information, such as some taxi invoices, and passenger quota invoices, according to the policy provisions, these cannot be deducted from VAT.

Welfare Invoices: Business trip tickets especially used for group welfare, personal consumption or entertainment activities and tax-free items shall not be calculated as VAT deduction.

Conclusion:

These measures are all positive for businesses operating in China, since they will reduce the overall tax burden and represent a significant step by the government to enhance economic activity in certain sectors, but keep in mind that the above is a brief introduction to the full VAT reform.

If you have any questions, please contact MGI Worldwide member Dickson Leung at dleung@lehmanbrown.com.

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