

Final stage of Business Tax to VAT (“B2V”) Reform

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On 5th March, 2016, Premier Li Keqiang’s announced at the opening of the National People’s Congress that the real estate and construction, financial services and insurance, and lifestyle services industries will all be subject to VAT with effect from 1st May 2016. This signifies the completion of the B2V reform measures within this year. China’s indirect tax system introduced in 1994 comprising of both VAT and BT will become obsolete.

The completion of B2V reform is expected to bring in a series of changes on VAT policy and administration which will have a profound impact on all businesses in China.

The VAT rates applied to the respective industries and a comparison with the current BT rates are set out below:

Sector	New VAT rate	Former BT rate
Construction Services	11%	3%
Real Estate	11%	5%
Financial and Insurance	6%	5%
Life style service and others	6%	Generally 5%, certain entertainment service rates vary from 3% -20%

For those meeting the requirements, General VAT payer is effectively assessed on a net basis ($\text{VAT Payable} = \text{Output VAT} - \text{Input VAT}$) while BT is assessed on a gross basis, a straight comparison between the new and the old rates is not valid. For those not meeting the requirements of General VAT, these companies would be classified as Small Scale VAT payer, and would be paying taxes on the revenue with no offset for input VAT, but with lower VAT rate at 3% which is reduced from former BT rate of 5%.

The timeframe for implementation of around 5-6 weeks from the release date of the new rules will be very challenging for businesses to meet. It is expected that many companies which are not already well prepared will face some challenges and uncertainties.

To be better prepared for the coming 1st May, consider the following:

■ **Tax Impact Analysis:**

Review operation mode, structure of taxes and expenses, investigating the supplier for their tax status and ability to provide proper tax receipts etc.

■ **Contract Review:**

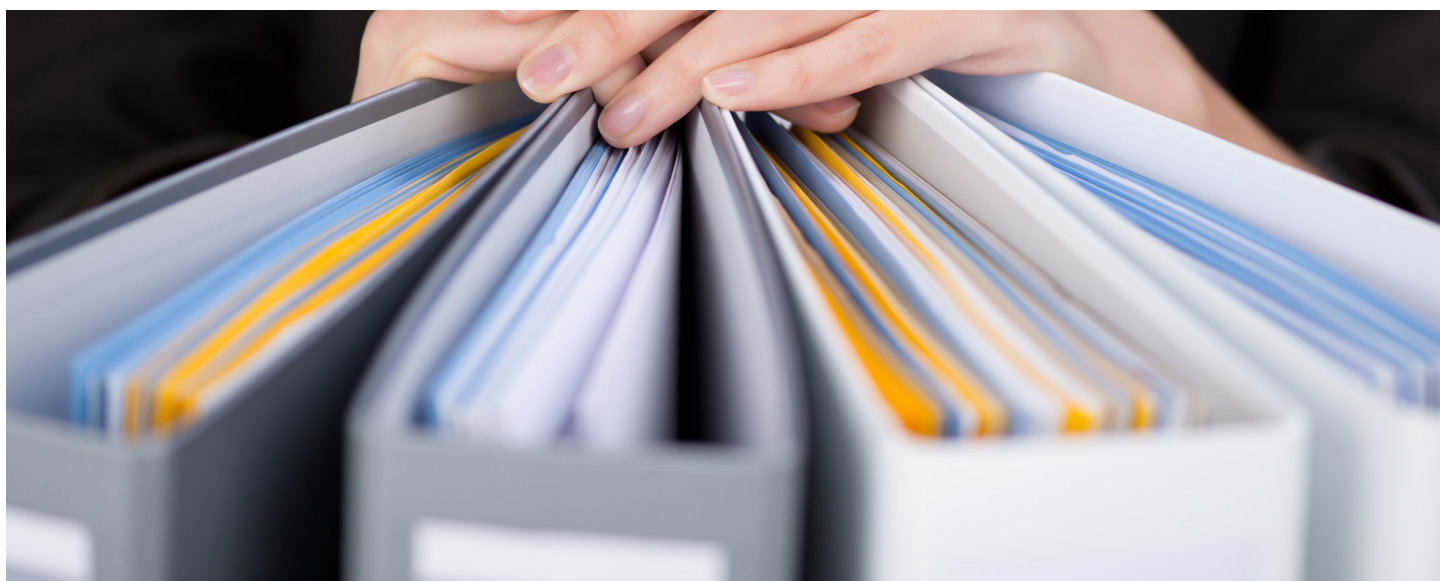
Review tax related clauses for old contracts and develop standard clauses after the reform to reflect the new tax position.

■ **System Update**

Enhance the VAT risk and invoice controls, update the accounting requirements, chart of accounts and internal process and procedures for VAT.

■ **Training**

Internal and external training to personnel not only in the tax, finance but across other relevant departments.



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Founded in 2001, LehmanBrown is a China-focused accounting, taxation and business advisory firm, operating in Beijing, Shanghai, Hong Kong, Macau, Shenzhen, Guangzhou and Tianjin. Our firm also manages an extensive affiliate network, providing service throughout China and reach across the globe.

Combining years of international expertise with practical Chinese experience and knowledge, LehmanBrown offers expert advice and support to both local and international clients. Within the mid - tier, we are regarded as a market leader and our clients enjoy access to a combination of senior and experienced counsellors from both China and abroad.

At LehmanBrown we recognise that you are unique, that you have unique requirements and we are committed to providing individually tailored financial solutions. LehmanBrown is dedicated to providing personalised service by working closely with our clients to understand your individual business needs. This enables us to offer the most up-to-date and expert advice.

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综合多年的国际经验和对中国市场的深刻理解和实践体验，我们向广大国内外的客户提供高质量的专业服务和意见帮助。在雷博国际会计的服务过程中，我们作为市场中的佼佼者，您将得到来自中国本土以及其它国家的高级资深专家热忱的咨询帮助。

我们深刻认识到每一位客户都是独一无二的，并都有其独特的业务需求。雷博国际会计承诺将根据客户的不同业务需求，为客户提供个性化的财务解决方案。我们的专业人员将密切与您合作，以充分了解您独特的业务需求，从而提供满足您所需要的高时效、高质量的专业服务。

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CFO Function

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Application for Individual Income Tax Refund

Expatriate Staff Individual Income Tax Staff Filing

Local Staff Individual Income Tax

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Corporate Tax Planning

Business Restructuring

Value Chain Review

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Transfer Pricing

Tax Compliance

Tax Due Diligence

Tax Deregistration

Negotiation of Tax Penalties

Tax Refund Application

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VAT & Customs Duty Clearance

PRC Tax Receipt Verification

VAT Application

VAT & Sales Tax Filing

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Systems

Risk Management

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US GAAP Conversion

Other GAAP

GAAP Conversion

Public Company Compliance

Financial Statement Preparation

IFRS

IFRS Accounting Repackaging

IFRS Financial Statement Preparation

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Labour Legal Advisory

Workforce Downsizing Advisory

Labour Tribunal Assistance & Advisory

Labour Law Review & Audits

Review & Preparation of Employment Contracts

Corporate Legal Advisory

Legal Due Diligence

Corporate Restructuring Advisory

Review & Preparation of Articles of Association (AoA)

Review & Preparation of JV Contracts

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