



## China's VAT Reform: The Basics

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## ***China's VAT Reform: The Basics***

The Chinese government recently passed VAT reforms for current general VAT payers' sales activities and imports that are subject to VAT 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.

### **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%

#### **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.

#### **There Is More**

Keep in mind that the above is a brief introduction to the full VAT reform. If you have any questions, please contact us.

Any enquiries, please contact LehmanBrown by [enquiries@lehmanbrown.com](mailto:enquiries@lehmanbrown.com)

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