

China cuts VAT rates

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In brief

- » China has released two circulars to reduce the VAT rates and to unify the recognition threshold for small-scale VAT payers; an explanatory announcement was also issued for detailed implementation.
- » For sales and imports used to be taxed at 17% and 11%, their VAT rates are reduced to 16% and 10% respectively.
- » The threshold for small-scale VAT payer is unified, irrespective of industries.
- » The new rules will be effective from 1 May 2018.

Feedback

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In detail

China's State Administration of Taxation (SAT) and Ministry of Finance (MOF) have released two circulars on 4 April 2018, Caishui [2018] No. 32 (Circular 32) and Caishui [2018] No.33 (Circular 33), announcing the reduction on VAT rates and the unification of threshold for small-scale VAT payers. On 20 April 2018, SAT issued an explanatory announcement (SAT Announcement [2018] No.18), detailing the related handling for the two circulars. The three documents will be effective from 1 May 2018.

» Reduction of VAT rates

The VAT rates of 17% and 11% for sales and import will be reduced to 16% and 10% respectively. The 6% rate for services remains unchanged.

» Reduction of export refund rate

The export VAT refund rate at 17% will be reduced to 16%, the refund rate at 11% will be reduced to 10%.

A transitional treatment is provided for export business, differentiated by type of companies:

- › For manufacturing exporters, 17% / 11% export VAT refund rates still apply before 31 July 2018; the 16% / 10% export VAT refund rates will apply after 1 August 2018.
- › For trading exporters, 17% / 11% export VAT refund rates still apply if 17% / 11% input VAT is paid; the reduced rates (16% / 10%) will apply if an input VAT rate at 16% / 10% has been used before 31 July 2018.

» Treatment for agricultural goods

- › The input VAT deduction rate for purchasing agricultural goods will be reduced from 11% to 10%.
- › The input VAT deduction rate for agricultural goods purchased in manufacturing / selling / processing (which are subject to VAT at 16%) will be reduced from 13% to 12%.

» Unification of small-scale VAT payer recognition

Previously the threshold for recognizing small-scale VAT payers is RMB 500,000 for manufacturing entities, RMB 800,000 for trading entities and RMB 5 million for entities under the VAT reform. Circular 33 has unified the threshold to RMB 5 million annual VAT liable revenue for all industries.

General VAT payers in manufacturing and trading industries can apply for a conversion to small-scale VAT payers before 31 December 2018, if their annual sales does not exceed RMB 5 million.

WTS observation

With new VAT rates effective on 1 May 2018, material influence is expected to the majority of companies in all industries. Companies are advised to evaluate and plan ahead in dealing with the potential impacts to their business, including:

- › Review the on-going and future contracts, communicate with suppliers and customers to properly manage the impact caused by the reduced VAT rate.
- › Stay tuned to updates, as there are still uncertainties to be clarified, e.g. treatment and handling of VAT invoices for pre-payments or down payments, payments by instalments, etc.
- › Arrange the export business accordingly to fully utilize transitional treatment for export business.

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