

China Tax and Finance Newsflash – 2013 No.1



Expansion of VAT Reform

I. Foreword

Premier Li Keqiang has recently hosted the State Council meeting, and has announced that the VAT pilot reform (changing from levying Business Tax (“BT”) to Value-added Tax (“VAT”)) will be further expanded to other provinces and industries.

II. Expansion Scope

2.1 Expansion - Regions

From August 1, 2013, the VAT pilot reform of transportation and certain modern service sectors (the detailed scope can be referred to the Shanghai VAT pilot reform regulations) will be expanded to the whole nation.

Such VAT pilot reform was started in Shanghai from January 1, 2012 (then expanded to other 10 provinces/cities by batches from August 1, 2012). Currently, these industries are subject to VAT in certain provinces/cities, while in other provinces/cities they are subject to BT. Such fact affects the balancing among different regions and leads to the tax “concentration effect”. It is also inconvenient for the operation and management of certain enterprise groups. If such VAT reform is expanded to the whole nation according to Premier Li’s announcement, it will be helpful to achieve consistent tax treatment.

2.2 Expansion - Industries

- Production of movies and TV products, and their broadcasting and publishing will be included into the VAT reform scope.
- Railway transportation, postal, telecom and communication sections will be included into the VAT reform scope at an “appropriate” time.
- China will try to complete the VAT reform for all industries and regions by the end of 2015.

III. Issues to be Clarified

Overall speaking, the detailed implementation rules on the above need to be published by the tax and other authorities. Particularly:-

- It is anticipated that the detailed rules about the VAT reform on transportation and certain modern service sectors will be similar to the Shanghai VAT reform regulations.
- The VAT reform rules on production of movies and TV products, and their broadcasting and publishing need to be clarified, especially on the applicable VAT rates. It is anticipated that such VAT rate will likely be 6%.
- There is considerable uncertainty about “at an appropriate time”, railway transportation, postal, telecom and communication sections will be included into the VAT reform scope, including detailed sectors, VAT rates, regions, etc. For reference, construction and installation sectors were widely expected to be included in the VAT reform scope last year. However, due to the difficulties to balance the VAT input credit and effective tax rates, they have not been included so far.

IV. Possible Impact on Your Enterprise and Suggested Approach

For enterprises in the transportation and certain modern service sectors (the detailed scope can be referred to the Shanghai VAT pilot reform regulations) that are located in the provinces/cities that the VAT reform has not been implemented, it is recommended to carefully study the Shanghai VAT reform regulations, conduct the tax impact estimation and make necessary preparation work as soon as possible, including:-

- Assessing whether the company’s operation model should be changed
- Considering whether the pricing basis and method with customers and suppliers should be adjusted
- Modifying standard contract terms
- Arranging relevant training to internal finance and management personnel

For enterprises in the sectors of producing/broadcasting/publishing movies and TV products, postal, telecom and communication, railway transportation, in addition to making the above preparation, they should also closely monitor the process and contents of the VAT pilot reform legislation on their industries, particularly the applicable VAT rates and possible tax preferences.

Important Note

The contents in this newsflash are for your reference purpose. Readers are suggested to consult professional advisors for detailed analysis before implementation. For more information or further advice on the above subject or analysis of other tax/finance issues, please feel free to contact our following partners.

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