



Dear Sir or Madam,

Please find enclosed our update on the latest developments on Chinese Tax Law.

Kind regards,
CMS, China

Circular Number	Issuance Date	Effective Date	Topic	What is new?
SAT Announcement [2019] No. 31 ("Announcement 31")	2019-09-16	2019-09-16 for Issue 1 and 2 in the very right column 2019-10-01 for Issue 3 to 6 in the very right column	Several clarifications on VAT treatments	<p>Announcement 31 clarifies the following VAT issues:</p> <p>1. Creditable input VAT derived from domestic passenger transportation service</p> <ul style="list-style-type: none">Creditable input VAT derived from domestic passenger transportation services refer only to those consumed by employees who sign labour contract with the company or staff seconded to the company via labour dispatch.For creditable input VAT derived from domestic passenger transportation service, if electronic VAT invoice is issued as certificate for credit purpose, the name and the tax identification number of the purchaser shown on the electronic VAT invoice should be those of the taxpayer that claims the input VAT credit.Only input VAT, which is supported by valid input VAT invoices, derived from domestic passenger transportation services that take place after 1 April 2019 can be creditable. <p>2. Input VAT super-credit</p> <ul style="list-style-type: none">Under the existing VAT regulations, a taxpayer providing postal service, telecom service, modern service and life service ("Four Services") can apply for input VAT super-credit, as long as its revenue derived from the Four Services takes up more than 50% of the taxpayer's total revenue. Announcement 31 clarifies that "revenue" for calculation of

threshold includes the revenue declared in tax filing as well as the revenue recognized in tax audit and tax adjustment. Revenue recognized in tax audit and tax adjustment shall be included in the revenue of the period in which the tax audit / tax adjustment takes place. For taxable items subject to VAT based on the difference between the real revenue and the amount of deductible items, “revenue” for calculation of the threshold shall refer to such difference.

- In the event that the taxpayer provides the Four Services and was established before 31 March 2019, as long as it does not generate any revenue during the period from April 2018 to March 2019, the revenue of the first 3 months from the month during which the revenue is generated shall be referred to for calculation of the threshold. In the event that the taxpayer provides the Four Services and was established after 1 April 2019, as long as it does not generate any revenue in the first 3 months since establishment, revenue of the first 3 months from the month during which revenue is generated shall be referred to for calculation of the threshold.
- For head companies and branches that pay VAT on consolidated basis, total revenue of the head company and the branches should be combined for calculation of the revenue threshold. If the threshold is reached, both the head company and the branches shall be entitled to input VAT super-credit. On the other hand, however, if the threshold is not reached, neither the head company nor the branches can enjoy the input VAT super-credit.

3. Refund of incremental uncredited input VAT for qualified taxpayers in advanced manufacturing industries

- According to Announcement [2019] No. 84 jointly released by the State Administration of Taxation and the Ministry of Finance, requirements for refund of incremental uncredited input VAT for qualified taxpayers in advanced manufacturing industries become less strict. Accordingly, Announcement 31 determines the template application form for input VAT refund.

4. VAT tax base for construction services

- Under the existing VAT regulations, taxpayers providing construction services shall pay VAT based on the difference between the total revenue and the subcontract payments made to the subcontractors. Announcement 31 makes it clear that “payment made to subcontractor” refers to total price as well as fees other than price paid to subcontractor.

				<p>5. Recrodal requirement cancelled for construction services taxed based on the simplified VAT method</p> <ul style="list-style-type: none"> Recordal requirement is no longer required for general VAT payers who provide construction services but choose to be taxed under the simplified VAT method. <p>6. Other issues</p> <ul style="list-style-type: none"> Announcement 31 clarifies the requirements to be met for a small-scale taxpayer providing goods transportation services when it applies with the tax authorities or on the qualified online logistic platforms for issuance of VAT invoices on its behalf. Announcement 31 clarifies the VAT treatment applicable to subcontract of freight forwarding services, as well as “liner exchange” business. Announcement 31 clarifies that taxpayers that acquire land and develop real estate through sea reclamation before 30 April 2016 can choose to be taxed under the simplified VAT method with 5% VAT levy rate. Announcement 31 clarifies rules to determine the purchase price of restricted shares under various situations. Announcement 31 clarifies input VAT credit rules for insurance companies under different situations. Announcement 31 clarifies that a taxpayer who sells food made on spot should be subject to VAT under the tax item of “catering services”. Announcement 31 also clarifies the administrative rules for taxpayers who need to issue VAT invoice at VAT rate of 17%, 16%, 11% and 10% after 20 September 2019.
Announcement [2019] No. 84, jointly released by the State Administration of Taxation (“SAT”), the Ministry of Finance (“MoF”)	2019-08-31	2019-08-31	Refund of incremental uncredited input VAT applicable to qualified taxpayers in advanced manufacturing industries	<p>Starting from 1 June 2019, qualified taxpayers in advanced manufacturing industries can apply for refund of incremental uncredited input VAT after July 2019, if all the following requirements are met:</p> <ol style="list-style-type: none"> Amount of incremental uncredited input VAT is higher than zero. The taxpayer is a Class A or Class B taxpayer in the Tax Credit System. The taxpayer did not conduct tax deception of uncredited input VAT refund, export VAT refund, or falsely issuing special VAT invoice, etc. within 36 months before applying for the refund. The taxpayer was not punished twice or more times by the tax authorities for tax evasion within 36 months before applying for the refund.

				<p>5. The taxpayer does not enjoy the preferential VAT policies of “Refund upon Levying” and “Levy First Refund Later” from 1 April 2019 onwards.</p> <p>The qualified taxpayer in advanced manufacturing industries refer to a taxpayer whose revenue derived from production and sales of non-metal mineral products, general equipment, special equipment, computers, communication and other electronic equipment as categorized under the <i>National Economic Industry Categorization</i> takes up more than 50% of its total revenue.</p> <p>Incremental uncredited input VAT refers to incremental uncredited input VAT compared to the total balance of uncredited input VAT as of 31 March 2019.</p> <p>The Announcement also clarifies the detailed calculation method of refundable incremental uncredited input VAT.</p>
PRC President Decree No. 33	2019-08-26	2020-09-01	PRC Resource Tax Law	<p>On 26 August 2019, PRC Resource Tax (“RT”) Law was passed. The law will come into force from 1 September 2020.</p> <p>The PRC RT Law will replace the existing PRC Interim Regulation of RT (“RT Interim Regulation”). The PRC RT Law inherits the general taxation structure and taxation burden as under the RT Interim Regulation, while making adjustments to rules that are no longer applicable to the latest economic development of China.</p> <p>Key changes brought by the PRC RT Law are as follows:</p> <p>1. Filing periods</p> <p>Under the old RT Interim Regulation, RT shall be filed every 1 day, every 3 days, every 5 days, every 10 days, every 15 days, or every month. Selection of filing period shall be determined by the tax authority on a case by case basis. Alternatively, the taxpayer may also choose to pay RT every time when RT obligation arises.</p> <p>Under the new RT Law, RT shall be filed on a monthly or quarterly basis, and the filing deadline shall be the 15th of each month. Alternatively, the taxpayer may also choose to pay RT every time when RT obligation arises.</p> <p>Thus, filing period of RT is now consistent with most other taxes.</p> <p>2. Taxable items</p> <p>Under the old RT Interim Regulation, only a broad category (30 types) of taxable resources is listed. Specific taxable items shall be determined by provincial governments.</p> <p>Under the new PRC RT Law, however, RT taxable resources are specified and enumerated. The PRC</p>

				<p>RT Law lists 164 taxable resources with respective applicable tax rates, among which the water resource is also included.</p> <p>3. Cross-department collaboration</p> <p>PRT RT Law gathers and clarifies tax exemptions and reductions, which are proved practical during the past years. The PRC RT Law also makes it clear that collaboration between different governmental departments is needed for verification of taxable items qualified for tax exemption and reduction. For example, under the PRC RT Law, tax reduction is provided for mineral products exploited from depleted mines. Verification of depleted mines would involve the work of governmental department in charge of natural resources.</p> <p>4. Pilot policy on water resource</p> <p>The pilot policy of levying RT on water resources started in 2016 in Hebei Province. The geographic validity of the pilot policy was then expanded to 9 provinces that are in lack of water resource. The pilot policy on water resource is now officially included in the PRC RT Law.</p>
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