

## China announces further reductions to its Value Added Tax (VAT): from 16% to 13% and from 10% to 9%

Following the 13<sup>th</sup> National People's Congress (NPC), it was announced that China would decrease the current Value Added Tax (VAT) rates of 16% and 10% for General VAT Taxpayers to lower VAT rates of 13% and 9% respectively. At the same time, the Value Added Tax rate of 6% for services will remain unchanged. The decrease of these Value Added Tax rates follows closely after [China raised the VAT exemption thresholds](#) for small-scale taxpayers in January in a bid to stabilize the economy and further stimulate economic activity in specific sectors.

### Value Added Tax

Value Added Tax is charged on the supply of goods or the provision of services and should be filed on a monthly or quarterly basis. VAT taxpayers in China are categorized as VAT General Taxpayers or VAT Small-scale Taxpayers. Taxpayers are identified as VAT general taxpayers if their annual turnover exceeds 5 million RMB, or when they apply for the General VAT Taxpayer status.

In the end, VAT is borne by the final consumer. Small-scale taxpayers are subject to a lower, 3 per cent VAT rate, but they are not able to deduct input VAT from their output VAT.

### VAT Reform Timeline

From March 2018 onward, the VAT rate for General VAT Taxpayers has already been decreased from 17% and 11% to 16% and 10%. Whereas the 6% VAT rate for providing services remained unchanged.

The current announcement followed the meeting of the National People's Congress on March 5<sup>th</sup>, 2019. The NPC is the country's national legislature. After its meeting, Premier Li Keqiang presented the annual Work Report with China's policy priorities for the upcoming year. This year, the report was highly anticipated amidst a slowing economy and the China-US Trade War.

The announcement of VAT reductions in the annual Work Report has not provided a specific date on which the new tax reductions will come into effect. It is anticipated that these changes will still happen in 2019.

## The VAT reductions in depth

According to the annual Work Report provided by Premier Li Keqiang, the Value Added Tax rate for manufacturing will decrease from 16% to 13%. The report also states that the VAT rate of 10% for providing transportation and construction activities will decrease to 9%.

The Work Report does not state whether VAT reductions will become applicable to all types of goods and services currently under the scope of the 16% and 11% VAT rates. The 16 per cent tax rate is now also applicable to the sales of goods, importation of goods, leasing of tangible property and repair and processing services. On the other hand, the 10 per cent VAT rate now additionally applies to the sales and leasing of immovable property, telecommunications services, and agricultural products as well as supply of water and gas.

Generally, the objective of the reform for the government is to reduce the number of different VAT rates used. However, we will have to await future announcements whether the reduction in VAT rates becomes more broadly applicable.

## Closing Remarks

The announcement of reducing Value Added Tax rates following the meeting of the NPC is good news for businesses and consumers alike in China and will reduce the overall tax burden. It is important to note that these changes could still come into effect in 2019, but we must await further details about the commencement and implementation of the VAT reductions. A reduction in VAT rates will have implications for businesses in China and we recommend to actively follow the most recent developments.

For more information about this subject, we would like to revert you to the MS Advisory website. You may also contact us directly.



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