



BDO China Shu Lun Pan Certified Public Accountants LLP
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China Tax Newsletter

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Our tax newsletter for this month covers:

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1. Announcement of the State Administration of Taxation on the Filing of Tax Exemption for Cross-border Taxable Activities and Other Value-added Tax-related Issues

On August 14, 2017, the Announcement of the State Administration of Taxation on the Filing of Tax Exemption for Cross-border Taxable Activities and Other Value-added Tax-related Issues (Announcement of the State Administration of Taxation [2017] No.30) is issued in light of the issues encountered during the implementation of the pilot scheme for levying VAT in place of business tax. The Announcement specifies the following aspects:

(1) Tax exemption filing formalities for cross-border taxable activities. Where taxpayers have completed the tax exemption filing formalities for certain cross-border activities according to related requirements, they are not required to complete the tax exemption filing formalities again if the same cross-border taxable activity occurred again. The taxpayers shall retain relevant tax exemption supporting documents for future review.

(2) Input VAT deduction for the transportation industry. Where a taxpayer enters into a transport service contract with a consignor in the capacity of a carrier, collects the freight, and assumes the liability of carrier and then entrusts an actual carrier to perform all or part of the transport service, the input VAT of the refined oil purchased by the taxpayer itself and delivered to the actual carrier for use and the road, bridge and gate toll fees paid may be deducted from output VAT provided that:

i. the refined oil and road, bridge and gate toll fees shall be used in the transport service which are entrusted by the taxpayer to the actual carrier; and

ii. the VAT credit documents obtained are conform to exiting provisions.

(3) Application of issuing a VAT invoice for individuals. To facilitate the timely provision of invoices to lessees by other individuals (natural persons) who lease real estate, to improve the proportion of rents for which VAT invoices are issued, and to reduce the burden of both the lessors and lessees, the Announcement stipulates that the individuals can entrust entities such as a real estate agent or a housing rental company to apply to the competent local tax authority for issuing a VAT invoice on behalf of themselves.

(4) Issuance of an invoice for discount interest arising from discount or transfer discount business of financial institutions. Starting from January 1, 2018, for financial institutions engaged in discount or transfer discount business, they are required to calculate and pay VAT based on the interest income obtained during the holding of the notes. To ensure that invoices are issued in full to the applicants for a discount, the Announcement stipulates that the discount institutions shall issue general VAT invoices in full to the applicants according to the note discount interest when the applicants apply to obtain invoices for the first discount interest, and the transfer discount institutions shall issue general VAT invoices in full to the discount institutions according to total amount of transfer discount interest.

Except for Article 4 of the Announcement, the Announcement shall come into force as of September 1, 2017.

Tips from BDO China

(1) With regard to the tax exemption filing formalities for cross-border taxable activities, the filing formalities are not required to be completed just for the same cross-border taxable activity for which filing formalities have been completed. When enterprises are involved in two or over two different cross-border taxable behaviors, they still need to complete the filing formalities separately for the activities for which tax exemption formalities have not been filed.

(2) With regard to VAT deduction for the transportation industry, it is not appropriate to expand the application of the provisions beyond the specific matter. Please be noted that only the input VAT of refined oil and road, bridge and gate toll fees can be deducted from output VAT; and input VAT deduction is allowed only for refined oil and road, bridge and gate toll fees which are necessary for completing the transport services within the scope of the contract, i.e. input VAT incurred during the completion of transport services beyond the scope of the contract are not allowed to be deducted.

From the perspective of the matching principle of income and cost, for costs incurred by the carrier for purchase of goods or services that are transferred to the actual carrier, they are deemed costs of the carrier due to the fact that the goods and services are closely related to the carrier's business. Therefore, the carrier undertakes the major costs, and the input VAT generated from the costs can be used to deduct carrier's output VAT.

2. Announcement of the State Administration of Taxation on Value-added Tax Administration Issues concerning the Bonded Delivery of Crude Oil Futures of the Shanghai International Energy Exchange

Announcement of the State Administration of Taxation on Value-added Tax Administration Issues concerning the Bonded Delivery of Crude Oil Futures of the Shanghai International Energy Exchange (Announcement of the State Administration of Taxation [2017] No.29) complements the circular Notice of the Ministry of Finance and the State Administration of Taxation on Value-added Tax Policies for the Bonded Delivery of Crude Oil and Iron Ore Futures (Cai Shui [2015] No.35) with administration measures. The Announcement applies different administration measures for domestic organizations and overseas organizations involved in the bonded delivery of crude oil futures via Shanghai International Energy Exchange Co., Ltd. (hereinafter referred to as "INE"). Matters in relation to VAT administration are hereby notified as follows:

(1) Where the seller of the bonded delivery of crude oil futures is a domestic organization, the domestic organization concerned shall be registered as a VAT taxpayer. The domestic organization shall file a record for tax exemption by submitting written statements on their own bonded delivery of crude oil futures and other relevant materials to the competent tax authorities when they initially apply for tax exemption for the bonded delivery of crude oil futures. The domestic organization shall organize and compile relevant materials, such as Bonded Delivery Settlement Statements, VAT invoices issued and received, receipt and payment vouchers, and standard bonded warehouse receipts, for corresponding tax exemption business in volumes on a monthly basis, and safe keep such volumes for future reference.

(2) Where the seller of the bonded delivery of crude oil futures is an overseas organization, the member entity of such seller should ask the seller for a corresponding receipt voucher which serves as the supporting document for tax exemption.

In addition, the Announcement also stipulates how to issue invoices for the bonded delivery of crude oil futures:

(1) Where the seller is a domestic organization, it shall issue general VAT invoices to the buyer.

(2) The amount indicated on a general VAT invoice shall be consistent with the bonded delivery settlement amount stated on the INE Bonded Delivery Settlement Statements.

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