



# China Tax Newsletter

February 2019

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## **1. Expanding the Scope of the Pilot Program of Allowing Small-Scale Taxpayers to Issue Special Value-added Tax Invoices on Their Own**

In order to boost the private economy and facilitate the issuance and use of VAT invoices by taxpayers, the State Administration of Taxation issued the Announcement on Matters Relating to Expanding the Scope of the Pilot Program of Allowing Small-scale Taxpayers to Issue Special Value-added Tax Invoices on Their Own (Announcement of the State Administration of Taxation [2019] No.8, hereinafter referred to as the "Announcement No. 8"). The content is as follows:

(1) Expanding the scope of the pilot program of allowing small-scale taxpayers to issue special value-added tax (VAT) invoices on their own

From March 1, 2019, small-scale taxpayers that are allowed to issue special VAT invoices on their own will be further expanded to cover those specializing in the leasing and commercial services, scientific research and technical services, residential services, repair and other services in addition to the previous accommodation, authentication and consulting services, construction, industry, information transmission, software and IT services. Where VAT should be paid by taxpayers in the pilot industries and special VAT invoices should be issued, taxpayers may voluntarily use the VAT invoice management system to issue the invoices by themselves.

(2) Expanding the scope of taxpayers qualified to be exempt from the VAT invoice verification requirement

All VAT general taxpayers will be qualified to be exempt from the VAT invoice verification requirement from March 1, 2019. VAT general taxpayers may voluntarily query and select the VAT invoice information necessary for applying for VAT deduction, export rebate or tax rebate representation on the VAT invoice selection and confirmation platform after obtaining the invoices.

## **2. Value-added Tax Exemption for Taxable Behaviors Such as Interest-free Borrowings Within an Enterprise Group**

On February 2, 2019, the State Administration of Taxation issued the Notice on Clarifying the Policy on Exemption of Elderly Care Agencies from Value-added Tax and Other Policies (Cai Shui [2019] No.20). The relevant policies are as follows:

(1) Elderly care agencies include various elderly care agencies registered in accordance with the Law of the People's Republic of China on the Protection of the Rights and Interests of the Elderly, filed with civil affairs departments for the record, and providing the elderly with centralized housing and care services.

(2) From February 1, 2019 to December 31, 2020, where a medical institution renders, as entrusted by another medical institution, specific services at prices not higher than the guiding prices, the policy on the exemption of VAT may apply.



(3) From February 1, 2019 to December 31, 2020, interest-free borrowings between entities within an enterprise group (including enterprise groups) shall be exempt from VAT.

(4) Provisions on the premium income and record-filing procedures for refundable personal insurance products with a term of one year or above of insurance companies are stipulated.

### **3. Individual Income Tax Return Amended**

The State Administration of Taxation issued the Announcement on Amending the Individual Income Tax Return (Announcement of the State Administration of Taxation [2019] No.7) so as to ensure the smooth implementation of the individual income tax (IIT) system featuring combination of consolidation and classification. The main changes after the amendment are as follows:

(1) Items in and instructions for filling in the original Individual Income Tax Basic Information Form (Form A), Individual Income Tax Basic Information Form (Form B) and Individual Income Tax Withholding Return Form are amended.

(2) The Individual Income Tax Annual Self-Declaration Return was formulated and issued according to the provisions relating to the comprehensive income declaration and final settlement in the new individual income tax law.

(3) The Record Form for the Accounting Method of Single Investment Fund of Partnership Venture Capital Enterprise and the Declaration Form for Individual Income Tax Withholding of Partnership Venture Capital Enterprise Accounting by Single Investment Fund are formulated and issued according to policies relating to income from transfer of equity of venture capital enterprises.

### **4. Abolishing Licensing Mechanism for Corporate Bank Accounts**

On February 12, 2019, the People's Bank of China issued the Notice on Abolishing Licensing Mechanism for Corporate Bank Accounts (Order of the People's Bank of China [2019] No.1). It is stipulated in the notice that the previous licensing mechanism for corporate bank accounts will be abolished in batches nationwide as from February 25, 2019 and is expected to be completely abolished by the end of 2019. When enterprises with legal personality, unincorporated enterprises and individual businesses open basic deposit accounts or temporary deposit accounts at banking financial institutions in the regions where the licensing mechanism for corporate bank accounts is abolished, the previous approval mechanism will be superseded by the record-filing mechanism.

### **5. Guangdong Province Implementing the Inclusive Tax Relief Policy for Small and Micro Enterprises**

In order to implement policies on the inclusive tax relief for small and micro enterprises, the Guangdong Provincial Tax Service, State Taxation Administration issued the Notice on Implementing the Inclusive Tax Relief Policy for Small and Micro



Enterprises within Guangdong Province (Yue Cai Fa [2019] No.6). It is stipulated in the notice to reduce by 50% the amount of resource tax, urban maintenance and construction tax, real estate tax, urban land use tax, stamp tax (excluding stamp tax on security trading), farmland occupation tax, education surcharges and local education surcharges imposed on small-scale taxpayers. If small-scale taxpayers have already enjoyed other preferential policies in terms of the above-mentioned taxes in accordance with relevant laws, they can still enjoy the above-mentioned policy in addition to other preferential policies already enjoyed.

In addition, the Shenzhen Tax Service, State Taxation Administration issued the Notice on Issues concerning Tax Collection and Administration under the Policy on the Reduction of Local Taxes and Related Surcharges for Small-scale Taxpayers (Notice of Shenzhen Tax Service, State Taxation Administration [2019] No.4) according to related provisions in the Yue Cai Fa [2019] No.6 and based on actual situations in Shenzhen so as to further implement the tax reduction policies on local taxes and relevant surcharges for small-scale taxpayers in Shenzhen.

## **6. Shenzhen Implementing VAT Exemption Policies for Small-scale Taxpayers**

In order to implement the VAT exemption policies for small-scale taxpayers, the Shenzhen Tax Service, State Taxation Administration issued the Notice on Tax Collection and Administration Issues Relating to Implementation of VAT Exemption Policies for Small-scale Taxpayers (Notice of Shenzhen Tax Service, State Taxation Administration [2019] No.3, hereinafter referred to as the "Circular No.3") based on actual situations in Shenzhen. The main content is as follows:

### (1) Defining the tax payment period for small-scale taxpayers in Shenzhen

Circular No.3 stipulates that the tax payment period for small-scale taxpayers in Shenzhen is a quarter. Where a small-scale taxpayer that pays VAT on a quarterly basis has sales taxable to VAT, if the aggregate quarterly sales amount does not exceed CNY300,000 (including the numeral referred thereto, same hereinafter), the sales amount shall be exempted from VAT. Where a small-scale taxpayer declares and pays VAT quarterly and the actual period of business operations is shorter than one quarter, it shall calculate the sales amount exempted from VAT for the current period based on actual months of business operations.

### (2) Re-registration for VAT general taxpayers

Circular No.3 stipulates that if a VAT general taxpayer obtains cumulative sales of CNY5 million or below for four consecutive quarters (for quarterly tax payment) prior to the re-registration date, it may apply to re-register as a small-scale taxpayer prior to December 31, 2019. Re-registration of VAT general taxpayers as small-scale taxpayers shall be conducted according to the Announcement of the State Administration of Taxation [2019] No.18 and No.20.

### (3) Applicability of the VAT prepayment policy

Where a small-scale taxpayer that is required to make advance payment of VAT according to the existing provisions achieves quarterly sales of CNY300,000 or below



in the place of advance payment, it does not need to make advance payment of VAT for the current period. If it has already made advance payment of VAT before the issuance of Circular No.3, it may make an application to the competent tax authority in the place of advance payment for refund of such advance payment.



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