



China Tax Newsletter

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1. Changes in Tax Treatments on Commercial Prepaid Cards

Pursuant to the Announcement of the State Administration of Taxation [2016] No. 53, commercial prepaid cards are divided into single-purpose commercial prepaid cards and prepaid cards issued by payment organisations. The Announcement also promulgates the following provisions with respect to card sellers, cardholders and sellers:

Advance funds obtained by a card seller from sale of commercial prepaid cards or top-up from cardholders shall not be subject to value-added tax (VAT). The card seller may issue general VAT invoices to persons purchasing cards or making top-up, and shall not issue special VAT invoices to them.

Income such as commission fee, settlement fee, service fee, management fee, etc. derived by a card seller from issuing or selling of commercial prepaid cards and handling of the relevant payment and settlement of funds shall be subject to VAT pursuant to the prevailing provisions.

When a cardholder uses a commercial prepaid card for purchase of goods or services, the seller of goods or services shall pay VAT pursuant to the prevailing provisions, and shall not issue a VAT invoice to the cardholder.

Where the seller and the card seller are not the same taxpayer, when the seller receives the sale amount settled by the card seller, it shall issue a general VAT invoice to the card seller, stating "prepaid card settlement amount received" in the remarks column, and shall not issue a special VAT invoice to the card seller.

The general VAT invoice obtained by the card seller from the seller shall be used as the proof for non-payment of VAT for advance funds received for sale of commercial prepaid card or acceptance of top-up of commercial prepaid card, and shall be retained for future inspection.

The Announcement shall come into force on 1 September 2016.

2. Notice on Improvement of Income Tax Policies Relating to Equity Incentive and Capital Contributions in the Form of Technology

Cai Shui [2016] No. 101 adjusts the income tax policies relating to equity incentive and capital contributions in the form of technology that meeting the required criterion, with details set out as follows:

(1) For stock options, equity options, restricted shares and equity rewards granted by an unlisted company to its employees, where certain requirements are met and filing has been completed with the competent tax authorities, the employees are eligible to defer the tax payment from the time when the incentives are received to the time when the equity is transferred. When transferring the equity, the employees are applicable to the individual income tax at the rate of 20% on the balance after deducting the cost of acquiring the equity and reasonable taxes and dues from the equity transfer proceeds, which is put under the category of "income from property transfer".

(2) For stock options, restricted shares and equity rewards granted by a listed company to individuals, where filing has been completed with the competent tax authorities, the individuals are eligible to pay the individual income tax within 12 months from the date when the stock options are exercised, or the restricted shares become transferrable, or the equity rewards are awarded.

(3) Where enterprises or individuals invest technological achievements into domestic resident enterprises for subscription of shares and the invested enterprises pay shares (equity) for all of the investments, the enterprises or individuals may opt to apply relevant tax policies currently in force or the preferential policy of deferred tax

payment.

If preferential policy of deferred tax payment is chosen, where filing has been completed with the competent tax authorities, the enterprise or individuals are allowed to defer the income tax payment to the time when the equity is transferred. The income tax payable shall be calculated based on the balance after deducting the original value of the technological achievements and reasonable taxes and dues from the equity transfer proceeds.

No matter which policy mentioned above is chosen by the enterprises or individuals, the invested enterprises are allowed to record in books the assessed value of the technological achievements at the time of investment and apply pre-tax amortization and deduction for enterprise income tax purpose.

The Announcement shall come into force on 1 September 2016.

3. Notice on Issues Relating to Deductions of Highway Toll Fees for VAT Purpose

Cai Shui [2016] No. 86 sets forth the following provision in relation to the VAT credit of the highway toll fees:

The amount stated on toll fee receipts (excluding fiscal notes) obtained by VAT general taxpayers for toll fees paid for highway, bridge and gate access shall be used for computation of deductible input VAT in the interim based on the following formulae:

Deductible input VAT of highway toll fee = amount stated on highway toll fee receipt / (1 + 3%) x 3%

Deductible input VAT of primary highway, secondary highway, bridge or gate toll fee = amount stated on the primary highway, secondary highway, bridge or gate toll fee receipt / (1 + 5%) x 5%

Toll fee shall mean the fee for access to highway, bridge and gate determined and collected by the relevant authorities pursuant to the laws or regulations.

This Notice shall be implemented with effect from 1 August 2016, and the date of cessation of implementation shall be notified separately.

4. Announcement on Issues Relating to VAT on Tap Water Charges Collected for Property Management Services

For the tap water charges collected from service recipients by taxpayers providing property management services, the amount after deducting the tap water charges paid to external entities shall be treated as the amount of sales and be applicable to VAT at the rate of 3% based on the simplified calculation method.

The Announcement shall take effect from the date of promulgation. For matters occurred after 1 May 2016, if they have been taken care of, adjustment is not required; if they have not be taken care of, the Announcement shall apply.

5. Announcement of the State Administration of Taxation on Issues Relating to Stolen and Lost Special VAT Invoices

For the convenience of taxpayers, the State Administration of Taxation has decided to cancel the requirement for taxpayers to publish a "Statement of Loss" on the "China Tax Newspapers" for special VAT invoices which are stolen or lost.

The Announcement shall be implemented with effect from 28 July 2016.

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Jesse Wang

Tel: +86-755-82900993

E-mail: jesse.wang@bdo.com.cn info@bdotax.cn

Jason Hu

Tel: +86-755-82966512

E-mail: jason.hu@bdo.com.cn

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