



China Tax Newsletter

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1. Inclusive Tax Relief for Small and Micro Enterprises

In order to implement the decisions and arrangements of the Central Committee of the Communist Party of China (CPC) and the State Council and to boost small and micro enterprises, the Ministry of Finance and the State Administration of Taxation issued the Notice on Implementing the Policy on Inclusive Tax Relief for Small and Micro Enterprises (Cai Shui [2019] No.13, hereinafter referred to as the "Circular No.13"). Subsequently, the State Administration of Taxation released the Announcement on Issues concerning the Implementation of the Policy on Inclusive Income Tax Relief for Small Low-profit Enterprises (Announcement of the State Administration of Taxation [2019] No.2, hereinafter referred to as the "Announcement No.2") to disclose the details of inclusive tax relief on income tax.

(1) Clarifying the method of determining small low-profit enterprises for the prepayment of enterprise income tax

A small low-profit enterprise refers to an enterprise in industries not restricted or prohibited by the State which can meet the following three standards, namely (a) its annual taxable income is not more than CNY3 million; (b) the number of its employees is not more than 300; and (c) its total assets are not more than CNY50 million. The number of employees and the total assets shall be determined based on the quarterly average number of a tax year.

(2) Introducing the progressive rates to increase tax reductions

For small low-profit enterprises whose annual taxable income does not exceed CNY3 million, the method of progressive taxation shall be applied, and the taxable income shall be divided into two sections for income tax calculation:

Annual Taxable Income	Preferential Tax Base	Applicable Enterprise Income Tax Rate
The portion of not more than CNY1 million	25% of annual taxable income	20%
The portion of more than CNY1 million but not more than CNY3 million	50% of annual taxable income	20%

For small low-profit enterprises, regardless of whether they pay enterprise income tax by way of levying based on accounts examination or levying based on assessment, they can enjoy the above-mentioned tax preferences. Where an enterprise originally cannot meet the standards of small low-profit enterprises but is deemed to be qualified as a small low-profit enterprise when it prepays enterprise income tax during the year, it shall compute and enjoy income tax relief policy for small low-profit enterprises in accordance with the cumulative figures as at the end of the current declaration period. Overpaid enterprise income tax amounts paid in prior periods of the current year due to dissatisfaction of standards of low-profit enterprise may be offset against enterprise income tax amounts which should be prepaid in the coming quarters.



(3) Clarifying the prepayment period of enterprise income tax for small low-profit enterprises

It is stipulated in Announcement No.2 that the small low-profit enterprises should prepay enterprise income tax on a quarterly basis. When an enterprise which prepays the enterprise income tax on a monthly basis declares the prepayment in April, July, and October of the current year, if it is deemed to meet the standards for small low-profit enterprises, it should declare the prepayment on a quarterly basis as of the next period of prepayment declaration. After the adjustment, no changes can be made in the current year.

2. Disclosed Details of the Value-added Tax Exemption Policies for Small-scale Taxpayers

On January 9, 2019, the executive meeting of the State Council decided to uplift the value-added tax (VAT) exemption threshold from CNY30,000 per month to CNY100,000 per month in terms of sales volume for small-scale VAT taxpayers. In order to ensure the smooth implementation of this preferential policy, the State Administration of Taxation issued the Announcement of State Administration of Taxation on Issues concerning Tax Collection and Administration under the Value-added Tax Exemption Policies for Small-scale Taxpayers (Announcement of the State Administration of Taxation [2019] No.4, hereinafter referred to as "Announcement No.4"). The main contents are as follows:

(1) Defining the implementation criteria according to the monthly (quarter) sales

It is clarified in Announcement No.4 that taxpayers should calculate sales based on all VAT taxable sales activities (including sales of goods, labor services, services, intangible assets and real estate) to determine whether they meet the VAT exemption standard. Moreover, if a small-scale taxpayer's total monthly sales amount to CNY100,000 or below after deducting the sales from selling real estate incurred in the current period, its sales from selling goods, labor services, services and intangible assets shall be exempted from VAT. In addition, Announcement No.4 clearly stipulates that for a small-scale taxpayer subject to VAT differential taxation policy, the sales after deduction shall be the sales amount.

(2) Selection of the tax period for small-scale taxpayers

Announcement No.4 stipulates that a small-scale taxpayer that pays VAT on a fixed periodic basis may opt to pay VAT on a monthly or quarterly basis. Once the decision is made, the period may not be changed for one fiscal year.

(3) Re-registration for general taxpayers

Announcement No.4 stipulates that if a general taxpayer obtains cumulative sales of CNY5 million or below for 12 consecutive months (for monthly tax payment) or 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.



(4) 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 monthly sales of CNY100,000 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 Announcement No.4, it may make an application to the competent tax authority in the place of advance payment for refund of such advance payment.

(5) Retrospective applicability of tax-related matters in January (or 1st quarter) of 2019

If a small-scale taxpayer's sales in January 2019 does not exceed CNY100,000 (if the taxpayer pays tax quarterly, the sales in the first quarter of 2019 does not exceed CNY300,00), it may, at the time of tax declaration, make an application to the competent tax authority for a refund of the tax paid for issuance of ordinary VAT invoices by the tax authority.

3. Reduced Local Taxes and Surcharges for Small-scale Taxpayers

It is stipulated in Circular No.13 that in order to boost small-scale taxpayers, People's governments of provinces, autonomous regions, and municipalities directly under the Central Government may decide whether to reduce the amount of resource tax, urban maintenance and construction tax, real estate tax, urban land use tax, stamp tax, farmland occupation tax, education surcharges and local education surcharges imposed on small-scale taxpayers by a tax rate within a range of lower than 50% based on actual local conditions and macro-control policies. Subsequently, the State Administration of Taxation issued the Announcement on Issues concerning Tax Collection and Administration under the Policy on the Reduction of Local Taxes and Related Surcharges for Small-scale Taxpayers (Announcement of the State Administration of Taxation [2019] No.5), amended the relevant declaration forms and clarified the validity period and application formalities so as to ensure that the small-scale taxpayers can fully enjoy the tax preferences.

4. Implementation of New Income Tax Policies for Individual Partners of Venture Capital Enterprises

In order to boost venture capital enterprises (including venture capital funds, hereinafter referred to as "venture capital enterprises"), the State Administration of Taxation issued the Notice on the Individual Income Tax Policies for Individual Partners of Venture Capital Enterprises (Cai Shui [2019] No.8). It explicitly stipulated that a venture capital enterprise may calculate the individual income tax payable on income of individual partners derived from the enterprise based on the income of a single investment fund or the overall annual income of the venture capital enterprise. According to the circular, if a venture capital enterprise chooses to calculate tax by each single investment fund, the equity transfer income and dividends attributable to an individual partner from the fund shall be subject to the individual income tax at the rate of 20%. If a venture capital enterprise chooses to



calculate tax based on the overall annual income, the income attributable to an individual partner from the venture capital enterprise shall be subject to the individual income tax at the progressive tax rates for "Operating Income", ranging from 5% to 35%.

5. The National People's Congress Passed the Farmland Occupation Tax Law and the Vehicle Purchase Tax Law

On the afternoon of December 29, 2018, the Seventh Session of the Standing Committee of the 13th National People's Congress voted to pass the Law of the People's Republic of China on Farmland Occupation Tax (hereinafter referred to as the "Farmland Occupation Tax Law") and the Law of the People's Republic of China on Vehicle Purchase Tax (hereinafter referred to as the "Vehicle Purchase Tax Law". Subsequently, President Xi Jinping of the People's Republic of China signed Presidential Decree No. 18 and No. 19, announcing that the Farmland Occupation Tax Law would come into effect on September 1, 2019, and the Vehicle Purchase Tax Law would come into effect on July 1, 2019.

6. Revision of Some Forms of the Tax Return of the People's Republic of China for the Monthly (Quarterly) Prepayment of Enterprise Income Tax (Category A, 2018 Version)

In order to implement the policy on inclusive income tax relief for small low-profit enterprises, the State Administration of Taxation revised some forms of the Tax Return of the People's Republic of China for the Monthly (Quarterly) Prepayment of Enterprise Income Tax (Category A, 2018 Edition), the Tax Return of the People's Republic of China for Monthly (Quarterly) Enterprise Income Tax Prepayment and Annual Enterprise Income Settlement (Category B, 2018 Edition) and the Annual Enterprise Income Tax Return of the People's Republic of China (Category A, 2017 Edition) and revised the instructions on the filling-in of these forms. The revised returns are applicable to the enterprise income tax prepayment and final settlement of 2019 and thereafter.

7. Continued Preferential Policies for Wholesale Markets of Agricultural Products and Farmers Markets

In order to further support the construction of the agricultural product circulation system, the State Administration of Taxation issued the Notice on Continuing with the Preferential Policies on Real Estate Tax and Urban Land Use Tax for Wholesale Markets of Agricultural Products and Farmers Markets (Cai Shui [2019] No.12), continuing to provide tax preference to the wholesale markets of agricultural products and the farmers markets in terms of real estate tax and urban land use tax. From January 1, 2019 to December 31, 2021, real estate and land dedicated for agricultural products in wholesale markets of agricultural products and farmers markets (including owned and leased ones, the same below) will be temporarily exempted from real estate tax and urban land use tax.



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