China alert

Issue 17 – August 2012

VAT implementation dates announced

Regulation discussed in this issue:

- Notice issued by the Ministry of Finance and the State Administration of Taxation announcing the precise implementation dates for the VAT reforms (Cai Shui [2012] No.71)

Background

In a joint circular Cai Shui [2012] No.71 (Circular 71) dated 31 July 2012, the Ministry of Finance (MoF) and the State Administration of Taxation (SAT) announced the implementation dates for the VAT pilot program in various cities and provinces, as well as the rules that will apply.

Confirmation of the implementation dates follows the earlier announcement last week by China's State Council that the VAT pilot program would be rolled out to 10 cities/provinces ('the pilot locations') progressively between 1 August 2012 and 31 December 2012.

Precise implementation dates

The precise implementation dates for each location are as follows:

- Beijing – 1 September 2012
- Jiangsu and Anhui – 1 October 2012
- Fujian (including Xiamen) and Guangdong (including Shenzhen) – 1 November 2012
- Tianjin, Zhejiang (including Ningbo), Hubei – 1 December 2012

Pilot program rules applicable in new locations

In Circular 71, the MoF and the SAT also confirmed that the pilot program rules applicable in each of the new pilot locations will be the same as Shanghai. Essentially, the only changes to the pilot program rules contained in Circular 71 are consequential amendments, for example, to remove specific references to 'Shanghai', and to remove references to the 1 January 2012 implementation date, which applied to Shanghai.

In Circular 71, the MoF and the SAT also made it clear that the full complement of Circulars containing rules for the VAT pilot program - Circulars Caishui [2011] 111, [2011] 131, [2011] 132, [2011] 133 and [2012] 53 - will apply to the new pilot locations. The only aspect where a further Circular is likely to be required is for the airline industry, given that Circular [2011] 132 is specific to Shanghai based airlines. A further Circular applicable to airlines based in the new pilot locations is likely to be issued shortly.

KPMG observations

The announcement of the implementation dates for each of the new pilot locations at one time is most welcome. It allows for a structured approach for businesses to implement the changes, rather than a piecemeal one. Furthermore, the selected dates helpfully group cities with their corresponding province together, i.e., Shenzhen will be implemented at the same time as the rest of the Guangdong province. Potentially, the only complication with the selected dates is in respect of Beijing commencing on 1 September and Tianjin commencing on 1 December. Given their close geographic proximity and trade links between the two cities, there may be some minor confusion during the short intervening time period.

Businesses with entities or branches in Shanghai as well as the new pilot locations, may have an advantage as they can apply their experiences from Shanghai. However, businesses should not be complacent given that differences in interpretation between the tax authorities in different locations may well arise, particularly given that the State tax bureau and local tax bureaus in the new pilot locations are separate (as compared to Shanghai where they were the same).

Circular 71 gives certainty to businesses that they can go ahead and prepare for the VAT reforms, and that there is a clear timetable for doing so. With the pilot program to commence in Beijing in less than one month,, businesses will need to take action very quickly to implement the reforms. Businesses that believe they may be affected by the expansion of the VAT pilot program should ideally seek advice confirming their position, and if applicable, approach their in-charge tax official to commence registration as a general VAT taxpayer. This will ordinarily also entail someone from the business attending training conducted by the tax authorities, and purchasing and installing the special VAT invoicing equipment and purchasing VAT special invoices

Please refer to China alert Issue 16 (July 2012) for further details on the steps that businesses should consider regarding VAT reform implementation.

A detailed explanation regarding the pilot program rules in Shanghai is outlined in China alert Issue 40 (November 2011).

For the types of assistance that KPMG can provide with the implementation of the VAT reforms, please refer to our VAT Reform Service Offerings brochure.

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