

VAT Reforms

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On 10 November 2008, the PRC authorities announced the amendments to the relevant regulations on VAT, Business Tax and Consumption Tax.

One of the key focuses is the VAT reform. Effective from 1 January 2009, **VAT incurred on acquisition of fixed assets can be set off against output VAT in computation of VAT payable.**

Currently, it is not permitted in general and those input VAT should be treated as cost of fixed asset. As such, a substantial amount of money could be trapped, causing cash flow problems for some enterprises.

The reform will allow full input VAT, as supported by valid VAT invoice, which is incurred by general VAT payer on purchasing fixed assets to set off against output VAT. Please note that such reform is nationwide without limitation on industries although VAT incurred on purchasing certain personal consumption items such as small motor cars, motor cycles and yachts are specifically disallowed.

It is understood that this new policy is applied to newly-purchased fixed assets on or after 1 January 2009.

Besides the above major change, other main features of this reform include:-

- 1) No longer any policy for Import VAT exemption for imported equipment.**
- 2) VAT refund for locally made equipment purchased by foreign investment enterprise will be cancelled.**
- 3) Unification of VAT levy rate for small scale VAT payer to 3%.**

With other policies such as raising VAT export refund rates and suspending customs deposit on bonded materials, the PRC government hope that it would relieve pressures that enterprises are facing during the current financial turmoil.

We shall continue to monitor the development of VAT and other taxes in the PRC, and provide further updates on regular basis.

Meanwhile, should you have any questions on the above turnover tax reform or other PRC taxations issues, please contact your manager at Mazars or one of us below:

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