

Certain Chinese input VAT receivables may be refundable

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China's Ministry of Finance and the State Administration of Taxation jointly released Caishui [2018] No. 70 (Circular 70). Under Circular 70, effective from 27 June 2018, accumulated uncredited input value added tax (VAT) balances, i.e., VAT receivables, for 18 industries including advanced manufacturing, and some of modern service industries as well as the power-grid enterprises may be refundable.

Taxpayers in the following industry sectors will receive priority in the application process:

- ▶ New-generation information technologies
- ▶ High-end numerically-controlled machine tools and robotics
- ▶ Aeronautics and space equipment
- ▶ Ocean engineering equipment and high-tech vessels
- ▶ Advanced rail transit equipment
- ▶ Energy conservation and new-energy cars/vehicles
- ▶ Electronic equipment
- ▶ Agricultural machinery and equipment
- ▶ New materials
- ▶ Biological medicine and high-performance medical devices

All applicants are required to have the tax credit rating of A or B in the Chinese tax authorities' system. Qualified taxpayers are able to claim the refund based on the VAT receivables balance as of the preceding filing period prior to date when the application is made, for example, if the application is done in October, 2018, the applicable receivable balance is as of 30 September 2018. However, the total refund amount is capped at the 31 December 2017 balance.

Refundable VAT is computed as follows:

Amount of input VAT refund = Ending balance of input VAT credit as of the end of the previous period (i.e., accumulated VAT receivable balance) x refund ratio (to be determined by a special formula)

The refund procedural implementation is expected to be completed by the end of September 2018; however, it may be extended, subject to further notice issued by Chinese tax authorities.

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