



Tax Newsflash

China

Deloitte Tohmatsu Tax Co.

November 3, 2015

VAT Zero-rated Services: Scope Expanded

On 30 October 2015, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) jointly issued Circular 118 (i.e. Caishui [2015] No. 118), expanding the scope of zero-rated services. This expansion in scope is intended to stimulate "exports" of the services covered.

Details

The following services, if provided to overseas enterprises, will be eligible for "zero-rating", effective from 1 December 2015:

- Production and distribution of radio, film and television programs (works);
- Technology transfer services, software services, circuit design and testing services, information system services, business process management services, and energy management contract services in relation to which the relevant contract object was located overseas; and
- Offshore outsourcing services including information technology outsourcing (ITO), business process outsourcing (BPO) and knowledge process outsourcing (KPO).

At present, only "international transportation services" and "R&D/design services provided to overseas enterprises" are eligible for zero-rating. Accordingly, at present, most of the services

listed in Circular 118, are VAT exempt, not zero-rated.

Deloitte's Comments

The change from "VAT exempt" to "zero rate" benefits taxpayers providing the relevant services because Input VAT incurred in relation to such zero-rated services is recoverable, whereas Input VAT incurred in relation to VAT exempt services is not. The change should be welcomed by all taxpayers in the applicable service sectors, in particular, taxpayers which make large investments, e.g., in equipment, when setting up to provide the relevant services.

Detailed rules concerning the implementation of Circular 118 are yet to be issued. It is hoped that these will quickly be released.

Relevant circular:

[Notice of Zero-rate Application on Exports of Certain Services such as TV/films services \(Caishui \[2015\] No. 118\) \(Chinese version\)](#)

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