

Value-added Tax Flash

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Further roll-out of the VAT Transformation Pilot Program

Global Indirect Taxes

After the launch of the business tax ("BT") to value-added tax ("VAT") transformation pilot program ("Pilot Program") for the transportation industry and certain modern service industries in Shanghai effective from January 1st, 2012, the State Council has now approved expanding the Pilot Program to 10 other provinces and municipalities: Beijing, Tianjin, Jiangsu, Zhejiang, Anhui, Fujian, Hubei, Guangdong, Xiamen and Shenzhen (hereinafter referred to as "10 New Pilot Regions") in batches from August 1st through to the end of 2012. The expansion was officially announced during a recent State Council meeting called by Premier and the announcement also mentioned that the Pilot Program will be further expanded into other regions and a nationwide pilot will be launched for selected industries in the Pilot Program next year.

In this issue of Flash, we would like to highlight the potential impacts arising from the expansion of the Pilot Program and share our observations as well.

Highlights of potential impact

- Timing of the roll-out: The Pilot Program will be rolled out to the 10 New Pilot Regions very soon, although the timing for rolling out it in each region is not confirmed yet. According to our latest intelligence, the roll-out to the 10 new Pilot Regions may be carried out in several batches



effective from September 1st, 2012 the earliest. The timing for each region is now up to the respective local-level authorities. It is expected that Beijing will roll out the Pilot Program from September 1st, 2012.

- Impact on the development of macro economy in China: According to public information and statistics available on line, it is estimated that the total GDP of China in the first half of 2012. Geographically, these 10 New Pilot Regions spread over Northern, Central, Eastern and Southern China.
- Complicated tax administration in the 10 New Pilot Regions: Compared with Shanghai, the 10 New Pilot Regions have separate State Tax Bureau ("STB") and Local Tax Bureau ("LTB") administrating VAT and BT respectively instead of a unified one in Shanghai.

PwC observations

- In General, the scheme of the Pilot Program to be rolled out to the 10 new Pilot Regions should be in line with the scheme currently implemented in Shanghai.
- As there are separated STB and LBT in these 10 New Pilot Regions, it is possible that different parties could be interpreting Pilot Services differently, particularly for those Pilot Services which are not well defined in the existing measures and rules. This would present more complicated challenges to tax payers in these 10 regions especially during the transitional period from BT to VAT.
- As the 10 New Pilot Regions may roll out in batches, it is therefore highly suggested that Pilot Enterprises in these 10 regions talk to their local-level authorities on the effective date of the roll-out in their region. The first and foremost starting point for these Pilot Enterprises is to study the impact to them under the Pilot Program.

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