

➤ **Q: What are the main vat tax reduction and exemption provisions?**

A: The provisions for vat exemption and reduction are made by the State Council. The main items exempt from vat are as follows:

- a. Self-produced primary agricultural products sold by agricultural producing units (including planting, breeding, forestry, animal husbandry, aquatic industry) and individuals.
- b. Exported goods under contract processing.
- c. The following equipment and the relevant technology, accessories and parts together with the equipment imported for self-use by enterprises (projects):
 - ◆ That imported by the foreign investment projects and domestic investment projects encouraged and supported by the State within the total investment sum.
 - ◆ That imported by enterprises for producing the products listed in the State High and New Technology Products Catalogue.
 - ◆ That imported by enterprises of software.
 - ◆ That imported by the enterprises with foreign investment of the encouraged type and of the restricted type B, the research and development centers with foreign investment, and the enterprises with foreign investment of advanced technology and of export-orient for technical transformation out of the self-owned fund beyond the total investment and within the approved scope of production and business operation.
 - ◆ That imported by the research and development centers with foreign investment out of the total investment.
 - ◆ That imported by the projects in conformity with the catalogue of advantageous industry and projects for introducing foreign capital in middle-west provinces, autonomous regions and municipalities directly under the State Council and out of the total investment (Certain tax incentives may also be enjoyed if it is imported by use of the self-owned fund beyond the total investment)
- d. The special integrated circuit equipment and apparatus imported by the integrated circuit manufacturing enterprises due to importation of integrated circuit technology and whole set of production equipment, and the raw materials and consumables imported for self use by the integrated circuit manufacturing enterprises in conformity with the State stipulations.
- e. The payment on software paid abroad by the enterprises to import the advanced technology listed in the State High and New Technology Products Catalogue.
- f. The equipment imported by use of the loans of foreign governments and international financial organizations.
- g. Contraceptive medicines and devices.
- h. Antique books purchased from the public

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- i. The articles of science research and teaching, which can not be made at home, imported by the science research and experiments.
- j. The imported materials and equipment for the free assistance from the foreign governments and international organizations.
- k. The materials imported by donations by overseas natural persons, legal persons and other organizations by rules for rules for the use of poverty support, charity cause.
- l. The articles directly imported by the organizations of the disabled specially for use by the disabled.
- m. Goods used and sold by individuals (excluding of individual business operators), but exclusive of motorcycles and cars subject to Consumption Tax (the above items should be subject to 6% vat levying rate).
- n. Artificial limb, wheel chairs and orthopaedic tools for special use by the disabled.
- o. Processing, repairs and replacement services provided by handicapped individual business operators.
- p. The construction materials produced from waste residue in accordance with the State rules.
- q. The blood for clinical use supplied from the blood supply centers.
- r. The preparation self-produced for self-use by the profitable medical institutions that use the profit obtained directly in improving the medical and health condition may be exempt from vat for three years starting from the date of obtaining the business licenses.
- s. The goods produced by the school enterprises for the use in lectures and scientific research.
- t. The enterprises engaged in used and waste materials recovery business.
- u. The goods produced and exported by small taxpayers.

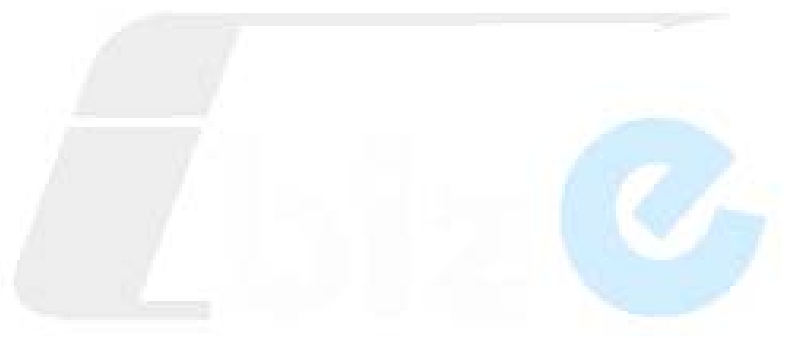
In addition, certain vat incentives (e.g., periodical tax reduction or exemption, or payment of tax first and then refund of the tax) may also be available for the production materials such as seeds, seedling, feeds, covering plastic film for farming, agricultural machinery, agricultural chemicals, chemical fertilizers; for the governmental newspapers and magazines published by the Communist Party and other parties, governments, the people's congress, the political consultative committee, work unions, the Communist League Union, the Women Union, Xinhua News Agency and the army units; for the textbooks used in universities, high schools and primary schools; for the newspapers and magazines exclusively published for young readers; for the books and magazines of science and technology; for the publications sold by the Xinhua Bookstores below county level and the supply store in countryside; for the software products and integrated circuits developed or produced and sold by the normal taxpayers; for the tea produced and sold by the selling units as appointed by the State; for the gold produced by the enterprises; for the school run enterprises; for the civil and welfare production enterprises; for the enterprises recovering waste and used materials and for the national trade enterprises.

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The importation vat may be exempt for the goods imported by the border residents through border trade up to the limit of RMB3000 yuan per day per person.

The individual taxpayers whose sales volume does not reach the threshold as specified by the Ministry of Finance may be exempt from vat. The current rules are: for sales of goods, the threshold is 600yuan- 2000 yuan sales per month; for sales of taxable services, the threshold is 200 yuan-800yuan sales per month; for sales of taxable services, the threshold is 200yuan-800yuan sales per month; for the tax levied at each sale or per day, the threshold is 50yuan-80yuan sales per sale or day. The threshold in different locations shall be determined by the offices of SAT at provincial level in consideration of the local conditions within the above ranges.

Where taxpayers are engaged in both vat-exempt and vat reduction items, the taxpayers should respectively account for the sales value of the exempt items and that of the reduction items. Otherwise, the tax department will not consider such tax exemption or tax reductions.



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