



## China Tax Alert

*Trusture Business Service Company Limited*

**Hu Cai Shui [2012] No.7  
Cai Shui [2011] No.131 (“Circular 131”)  
Zero Tax Rate and Exemption for Certain Taxable Services  
under the VAT Pilot Program in Shanghai**

On 17 February 2012, State Administration of Taxation (the “SAT”) Shanghai Municipal Bureau and Shanghai Local Taxation Bureau jointly published the Hu Cai Shui [2012] No.7, which is same as the Circular 131 joined issued by China’s Ministry of Finance (the “MOF”) and SAT on 29 December 2011 concerning the Applicable Zero VAT rate and exemption for certain taxable services.

International transportation services including cross-border and offshore transportation services for passengers and cargos, research and development services and design services provided to overseas entities are subject to the zero VAT rate.

Circular 131 specifies the following types of services provided by the pilot enterprises or individuals are eligible for exemption treatment:

- Services rendered by pilot enterprises or individuals offshore, such as geotechnical exploration, conference and exhibition services, warehousing services, lease of movable property etc. by reference to the services rendering location outside China;
- International transportation services unqualified to zero tax rate due to lack of related operation licenses; and
- Services provided to foreign enterprises by reference to the service recipients outside China, such as technique consulting services, certification service, authentication services, consulting services etc.

TBS-CTA-201203

*Shanghai • China*

### Release Date

27 February 2012

### Jurisdiction

China

### Issue / Topic

Value-added Tax

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**Cai Shui [2011] No.131 (“Circular 131”)**

**Zero Tax Rate and Exemption for Certain Taxable Services under the VAT Pilot Program in Shanghai (Continued)**

Circular 131 stipulates that the “Exempt, Credit and Refund” method applies to the zero tax rate services when the pilot enterprise or individuals are general tax payers (the “GTP”). Pilot enterprise or individuals identified as small tax payer (the “STP”), which does not allow the deduction of input VAT from output VAT, VAT exemption applies.

We recommend you as follows:

- Zero tax rate treatment is preferential than exemption treatment. The pilot enterprises and individuals should monitor their VAT status and apply for GTP qualification timely in order to enjoy the zero tax rate treatment.

Zero Rate	Exemption
No output VAT will be levied for qualified services. Input VAT associated with the services can be refunded.	No output VAT will be levied for qualified services. Input VAT associated with the services can NOT be refunded.

- Pilot enterprises and individuals rendering cross-border or offshore international transportation services should examine the valid period of their operation licenses and apply for the licenses timely if they are qualified but still not apply for yet;
- Qualified GTP should communicate with the tax officer, and make sure necessary application procedure to the “Exempt, Credit and Refund” method have been compliant to and filing documents have been submitted to the tax authority timely.

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TBS-CTA-201203

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