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VAT NEWSLETTER

China codifies Value Added Tax: Chinese VAT law entered into force on 1 January 2026

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As of 1 January 2026, the People's Republic of China has, for the first time, brought into force a comprehensive VAT law. With this codification, China introduces a coherent and streamlined legal framework for VAT. At the same time, the Chinese VAT system now aligns more closely with international standards, in particular with the OECD's international VAT/GST guidelines.

1 Chinese VAT system in force until 31 December 2025

The enactment of China's VAT law marks the culmination of a development process spanning several decades. The People's Republic of China was established in 1949, but it was not until the late 1970s that the first isolated local regulations on VAT emerged. A uniform nationwide VAT system, however, did not yet exist. This changed in 1994, when China introduced (the) Provisional Regulations on VAT, providing, for the first time, a central and national legal basis for VAT. These Provisional Regulations – complemented by various additional transitional rules – constituted the core of China's VAT legislation for 32 years, despite their expressly temporary nature. Over more than three decades, the transitional framework was repeatedly revised, expanded and refined through administrative guidance.

From a systematic perspective, the Chinese VAT system long remained incomplete. For example, until 2012, most services were not subject to VAT but rather to the Business Tax, a tax regime that did not allow for input VAT deduction. This structure placed China's rapidly growing services sector at a considerable competitive disadvantage compared with other parts of the economy. These shortcomings prompted the legislator to undertake a comprehensive reform. Between 2012 and 2016, the Provisional Regulations underwent their final substantial revision. The Business Tax was gradually phased out and integrated into the VAT system. By the conclusion of the reform in 2016, VAT generally applied to both supplies of goods

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and the provision of services, and the Business Tax was completely abolished. This provisional regime remained in force until 31 December 2025.

2 Implementing provisions to the Chinese VAT law

In order to implement the Chinese VAT law, the State Council of the People's Republic of China has issued Implementing Provisions No. 826, also effective as of 1 January 2026. These provisions currently constitute the only nationally binding interpretation of the VAT law and clarify its substantive scope. In China, they carry generally binding effect and function in a manner akin to statutory law. Accordingly, both the VAT law and Implementing Provisions No. 826 must always be read together when addressing legal issues under the Chinese VAT system. The scope and structure of these Implementing Provisions, however, cannot be compared to the Administrative VAT Guidelines like in some of the EU Member States. Additional implementing rules, further detailing the VAT law, are expected to be issued at both national and local levels.

3 Key innovations introduced by the Chinese VAT law

The Chinese VAT law classifies taxable transactions into four categories: the sale of goods, the provision of services, the transfer of intangible assets and the transfer of real estate. Under the standard regime, VAT applies at rates of 13%, 9%, 6% and 0%. A uniform rate of 3% applies to transactions subject to the simplified taxation regime. Imports and exports are governed by a combination of zero-rating and the reverse-charge mechanism. The existing zero-rating for certain cross-border services and intangible assets has been retained.

The powers of the tax authorities to review and adjust the taxable base have been expanded. In particular, where the consideration appears unreasonably high or low, or is determined in a non-monetary form, the authorities may substitute a value based on market-oriented criteria. This is intended to prevent abusive pricing practices, especially in intra-group scenarios.

For the first time, the law introduces a statutory mechanism for the refund of excess input VAT. Taxpayers may choose either to carry forward excess input VAT to the next tax period or to apply for a refund. This addresses a major structural deficiency of the previous legal framework and strengthens the principle of VAT neutrality. In practice, however, the effectiveness of the refund mechanism will depend on further implementing rules, in particular with respect to the nationwide harmonization of audit and approval procedures.

4 Significance for the practice

The introduction of the new Chinese VAT law provides a clear occasion to reassess existing VAT structures in relation to business activities in China. Businesses – in particular Sino-German joint ventures – should examine to what extent established VAT approaches may need to be adapted to the new statutory framework. Central to this is a comprehensive review of all China-related transactions: Which supplies are performed in China? Which local particularities apply? And how can VAT issues be addressed in a legally secure and practical manner?

At the same time, it is essential to monitor the forthcoming implementing rules to be issued by the tax authorities. These will determine how the new VAT law will be applied in day-to-day operations and what additional requirements may arise at short notice. In practice, early coordination with the Chinese tax authorities is advisable. This allows open issues to be clarified and uncertainties to be resolved before they develop into financial or organizational risks.

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