

Interpretation of supporting measures for the implementation of the VAT Law (Series I): Provisional measures for input VAT credit of long-term assets

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Issue 1

In brief

The Value Added Tax Law of the People's Republic of China¹ (the "VAT Law") has officially come into force on 1 January 2026. Article 25 of the Detailed Implementation Rules (DIRs) of Value Added Tax (VAT) Law of the People's Republic of China² (the "DIRs of VAT Law") for the first time introduces the new concept of "long-term assets". Long-term assets refer to fixed assets, intangible assets and immovable assets acquired by general taxpayers, and the treatment of the corresponding input VAT shall have to comply with the special regulations.

On 30 January 2026, the Ministry of Finance (MOF) and the State Taxation Administration (STA) jointly issued the Public Notice Regarding the Issuance of <Provisional Measures for Input VAT Credit of Long-term Assets>³ (Public Notice [2026] No.15, the "PN15"), which specifies the detailed measures for the treatment of input VAT of long-term assets acquired by general taxpayers.

In this issue of China Tax/Business Insights, PwC will introduce the main provisions of PN15 and analyse the application of relevant provisions and their impacts on enterprises with illustrative hypothetical cases.

In detail

Pursuant to Article 25 of the DIRs of VAT Law, the input VAT of long-term assets acquired by general taxpayers shall have to be treated as follows:

- Where long-term assets are exclusively used for items subject to the general VAT calculation method, the corresponding input VAT can be fully credited;
- Where long-term assets are exclusively used for five categories of items within the scope of non-creditable input VAT (items subject to the simplified VAT calculation method, VAT exempt items, non-taxable transactions not eligible for input VAT credit, collective welfare, or personal consumption), the corresponding input VAT is not creditable;
- Where long-term assets are used for both items subject to the general VAT calculation method and items within the scope of non-creditable input VAT (hereinafter referred to as “mixed use”):
 - For a single long-term asset with an original value \leq RMB 5 million, the corresponding input VAT **can be fully credited**;
 - For a single long-term asset with an original value $>$ RMB 5 million, the corresponding input VAT shall **be fully credited upon acquisition**, and the non-creditable amount shall be **calculated and adjusted annually** based on the adjustment period during the period of mixed use thereafter.

PN15 specifies the specific measures for the input VAT credit of long-term assets as follows:

I. The Definition of Long-term Assets

“Acquired” long-term assets refer to those long-term assets obtained by means of direct purchase, self-production, R&D or construction, investment, donation, debt settlement, etc. While leased long-term assets, temporary buildings and structures constructed at construction sites, and real estate projects developed by real estate development enterprises that are accounted for as inventory are excluded.

II. Full Credit upon Acquisition and Subsequent Annual Adjustment for Mixed-use Long-term Assets with an Original Value Exceeding RMB 5 Million

2.1 Scope of Mixed-use Long-term Assets with an Original Value Exceeding RMB 5 Million

Mixed-use long-term assets with an original value exceeding RMB 5 million, for which the input VAT is fully credited **upon acquisition** and subject to annual adjustment during the subsequent mixed-use period, include the following two types:

- 1) Single long-term assets that are recognized as assets in accordance with the accounting standards on or after 1 January 2026 with an original value exceeding RMB 5 million;
- 2) Single long-term assets that have been accounted for as relevant assets in accordance with the accounting standards on or before 31 December 2025, and underwent capitalized transformation completed on or after 1 January 2026, resulting in an original value exceeding RMB 5 million.

The original value of long-term assets refers to the book value on initially recognized. Where capitalized transformation expenditures are incurred after the formation of long-term assets, their original value shall be adjusted in accordance with the accounting standards.

2.2 Annual Instalment Adjustment Method

Step 1: Determine the adjustment base of input VAT during the mixed-use period in the current year.

The adjustment base of input VAT during the mixed-use period in the current year = Input VAT corresponding to the long-term assets subject to adjustment × (Number of months of mixed use in the current year / (Adjustment period(years) × 12))

Regulations on the adjustment period: 20 years for immovable assets and land use rights; 10 years for aircraft, trains and ships; and 5 years for other long-term assets.

Step 2: Calculate the input VAT attributable to collective welfare or personal consumption (collectively referred to as two categories of non-creditable items) during the mixed-use period in the current year.

Input VAT attributable to the two categories of non-creditable items during the mixed-use period in the current year

= Adjustment base of input VAT during the mixed-use period in the current year × (Depreciation or amortization amount of long-term assets recognized in the two categories of non-creditable items in accordance with the accounting standards during the mixed-use period in the current year / Total amount of depreciation or amortization of long-term assets recognized in accordance with accounting standards during the mixed-use period in the current year)

Step 3: Calculate the input VAT attributable to items subject to the simplified VAT calculation method, VAT exempt items, and non-taxable transactions not eligible for input VAT credit (collectively referred to as three categories of non-creditable items) during the mixed-use period in the current year.

Input VAT attributable to the three categories of non-creditable items during the mixed-use period in the current year

= (Adjustment base of input VAT during the mixed-use period in the current year – Input VAT attributable to the two categories of non-creditable items during the mixed-use period in the current year) × (Sales revenue of items subject to the simplified VAT calculation method + Sales revenue of VAT exempt items + Income of non-taxable transactions not eligible for input VAT credit during the mixed-use period in the current year) / (Total sales revenue+ Total income of non-taxable transactions during the mixed-use period in the current year)

Step 4: Calculate the input VAT attributable to the five categories of non-creditable items the mixed-use period in the current year, and deduct it from the input VAT in the January VAT filing period of the following year.

Input VAT attributable to the five categories of non-creditable items during the mixed-use period in the current year

= Input VAT attributable to the two categories of non-creditable items during the mixed-use period in the current year + Input VAT attributable to the three categories of non-creditable items during the mixed-use period in the current year

PwC observations

For mixed-use long-term assets with an original value exceeding RMB 5 million, the input VAT can be fully credited upon acquisition, and an annual adjustment is required during next year's January VAT filing period using the "instalment adjustment method", whereby the adjusted amount is deducted from the input VAT. Although the concept of long-term assets and the provisional measures for input VAT credit are newly introduced, relevant enterprises are only required to make the first annual adjustment in the VAT filing period of January 2027. Enterprises still have time within 2026 to sort out relevant documents, identify in-scope long-term assets, establish ledgers and analyze the impacts on input VAT and costs.

III. Treatment of Input VAT of Long-term Assets upon a Change in Use

Scenario 1: Where long-term assets with credited input VAT at the time of acquisition are subject to abnormal losses or exclusively used for the five categories of non-creditable items subsequently, the corresponding input VAT shall have to be transferred out.

Where long-term assets with credited input VAT at the time of acquisition are subject to abnormal losses or exclusively used for the five categories of non-creditable items subsequently, the corresponding input VAT shall be calculated and transferred out in the month when the abnormal loss or change in use occurs in accordance with the following formula:

Non-creditable input VAT = Input VAT of long-term assets × Net value ratio

Net value ratio = Net value of long-term assets at the beginning of the month / Original value of long-term assets × 100%

Scenario 2: Where long-term assets with uncredited input VAT that are exclusively used for the five categories of non-creditable items upon acquisition are subsequently used for items subject to general VAT calculation method exclusively or for mixed use, the input VAT can be creditable.

Where long-term assets with uncredited input VAT that are exclusively used for the five categories of non-creditable items upon acquisition are subsequently used for items subject to general VAT calculation method exclusively or for mixed use, the creditable input VAT shall be calculated in the month of such change in accordance with the following formula:

Creditable input VAT = Input VAT of long-term assets × Net value ratio

In both Scenario 1 and Scenario 2, for long-term assets with an original value less than RMB 5 million, their net value shall be determined based on the book balance after depreciation/amortization in accordance with accounting standards, and for long-term assets with an original value exceeding RMB 5 million, their net value shall be calculated in accordance with the following formula:

Net value of the long-term asset = Original value × (1 - Number of months owning the long-term asset / (Adjustment period (years) × 12))

PwC observations

In Scenario 2, if the long-term asset is converted to mixed use and its original value exceeds RMB 5 million, even if the input VAT can be calculated and credited in accordance with the formula at the time of the use change, it will most likely still be subject to the annual adjustment mentioned in Section II in subsequent period. It remains to be clarified on how to determine whether the “original value” of a long-term asset exceeds RMB 5 million, whether it shall be based on the initial book value upon acquisition or the net value at the time of conversion to mixed use.

IV. Capitalized Transformation of Long-term Assets

Capitalized transformation of long-term assets refers to the repair, upgrade, transformation, reconstruction, expansion, renovation, decoration of long-term assets that meet the capitalization criteria in accordance with the accounting standards. Where the aforementioned capitalized transformation expenditures are incurred after the formation of long-term assets, the original value of the long-term assets shall be adjusted in accordance with the accounting standards. At the same time, the input VAT of long-term assets shall be adjusted based on the input VAT corresponding to such capitalized transformation expenditures.

For a single item of long-term asset that has been accounted for as relevant asset in accordance with the accounting standards on or before 31 December 2025 and whose original value exceeds RMB 5 million after the completion of capitalized transformation on or after 1 January 2026, if it is used for mixed use, the input VAT during the mixed-use period shall be treated as follows:

- The input VAT attributable to the portion of capitalized transformation expenditures shall be calculated and adjusted annually for the non-creditable portion in accordance with the instalment adjustment method specified in Section II;
- The input VAT attributable to the portion other than capitalized transformation expenditures: (a) if used for mixed use, can be fully credited; (b) if the use changes thereafter, the input VAT shall be treated in accordance with the two scenarios specified in Section III.

PwC observations

PN15 does not specify the scope of the input VAT attributable to the portion “other than capitalized transformation expenditures”, which is subject to further clarification by the STA.

V. The Disposal of Long-term Assets

Where a taxpayer disposes of an entire single item of long-term asset and a change in use as specified in Section III had occurred, the input VAT shall be adjusted accordingly. Where a taxpayer partially

disposes of the long-term asset, the proportion of the disposed portion and the remaining portion of the long-term asset shall be determined based on the book value recognized in accordance with accounting standards at the time of disposal, and the input VAT shall be adjusted accordingly based on the proportion of the disposed portion.

VI. Hypothetical Case Analysis

To facilitate your understanding, PwC provides the following illustrative hypothetical and simplified case analysis to demonstrate the application of key provisions of PN15 regarding the Provisional Measures for the Input VAT Credit on Long-term Assets and their impacts on enterprises:

Hypothetical Case 1: Enterprise A purchases a production line Equipment A with a tax-exclusive original value of RMB 3 million (input VAT of RMB 390,000) in January 2026, which is put into use in the same month (accounting depreciation started in February, with a depreciation period of 5 years), which is exclusively used for items subject to the general VAT calculation method. The entire equipment is scrapped due to abnormal loss in February 2027.

VAT Treatment Analysis:

- Upon acquisition in January 2026, the input VAT of RMB 390,000 shall be fully credited as the equipment was exclusively used for items subject to the general VAT calculation method;
- The non-creditable input VAT shall be calculated in February 2027 (the month of scrapping) and deducted from the current input VAT:

Net value of the long-term asset at the beginning of February 2027 (balance after accounting depreciation) = $3,000,000 - 3,000,000 \times 12 / (12 \times 5) = \text{RMB } 2,400,000$

Net value ratio = Net value of the long-term asset at the beginning of the month / Original value of the long-term asset $\times 100\% = 2,400,000 / 3,000,000 \times 100\% = 80\%$

Non-creditable input VAT = Input VAT of the long-term asset \times Net value ratio = $390,000 \times 80\% = \text{RMB } 312,000$

Hypothetical Case 2: Enterprise B purchases a production line Equipment B with a tax-exclusive original value of RMB 4 million (input VAT of RMB 520,000) in February 2026, which is put into use in the same month exclusively for the five categories of non-creditable items (accounting depreciation started in March, with a depreciation period of 5 years). The entire equipment is converted to exclusive use for items subject to the general VAT calculation method in March 2027.

VAT Treatment Analysis:

- Upon acquisition in February 2026, the input VAT of RMB 520,000 cannot be credited as the equipment was exclusively used for the five categories of non-creditable items. The input VAT of RMB 520,000 shall be included in the equipment's original value for accounting purposes, resulting in an accounting original value of RMB 4.52 million.
- It is converted to exclusive use for items subject to the general VAT calculation method in March 2027, and the creditable input VAT shall be calculated in the month of the use change:

Net value of the long-term asset at the beginning of March 2027 (balance after accounting depreciation)
 $= 4,520,000 - 4,520,000 \times 12 / (12 \times 5) = \text{RMB } 3,616,100$

Net value ratio = Net value of the long-term asset at the beginning of the month / Original value of the long-term asset $\times 100\% = 3,616,100 / 4,520,000 \times 100\% = 80\%$

Creditable input VAT = Input VAT of the long-term asset \times Net value ratio = $520,000 \times 80\% = \text{RMB } 416,000$

Hypothetical Case 3: Enterprise C purchases a production line Equipment C with a tax-exclusive original value of RMB 6 million (input VAT of RMB 780,000) in March 2026, which is put it into use in the same month (accounting depreciation started in April, with a depreciation period of 5 years). It is for mixed use including items subject to the general VAT calculation method (sales revenue of RMB 10 million during the mixed-use period in 2026), employee welfare (20% of the equipment used for employee welfare), and VAT exempt items (sales revenue of RMB 4 million during the mixed-use period in 2026). No other VAT-related transactions occurred during this year.

VAT Treatment Analysis:

- Upon acquisition in March 2026, the input VAT of RMB 780,000 shall be fully credited as the equipment which is used for mixed sale has an original value exceeding RMB 5 million;
- An annual adjustment shall be made in January 2027 to deduct the non-creditable input VAT from the total input VAT, which shall be calculated in accordance with the following instalment adjustment method:

Step 1:

Adjustment base of input VAT during mixed-use period in 2026 (April to December 2026)

$= \text{Input VAT corresponding to the long-term assets subject to adjustment} \times (\text{Number of months of mixed use in the current year} / (\text{Adjustment period (years)} \times 12))$

$$= 780,000 \times 9 / (5 \times 12) = \text{RMB } 117,000$$

Step 2:

Input VAT attributable to the two categories of non-creditable items during the mixed-use period in 2026

= Adjustment base of input VAT during the mixed-use period in the current year × (Depreciation or amortization amount of long-term assets recognized in the two categories of non-creditable items in accordance with the accounting standards during the mixed-use period in the current year / Total amount of depreciation or amortization of long-term assets recognized in accordance with accounting standards during the mixed-use period in the current year)

$$= 117,000 \times 20\% = \text{RMB } 23,400$$

Step 3:

Input VAT attributable to the three categories of non-creditable items during the mixed-use period in 2026

= (Adjustment base of input VAT during the mixed-use period in the current year – Input VAT attributable to the two categories of non-creditable items during the mixed-use period in the current year) × (Sales revenue of items subject to the simplified VAT calculation method + Sales revenue of VAT exempt items + Income of non-taxable transactions not eligible for input VAT credit during the mixed-use period in the current year) / (Total sales revenue+ Total income of non-taxable transactions during the mixed-use period in the current year)

$$= (117,000 - 23,400) \times 4,000,000 / (10,000,000 + 4,000,000) = \text{RMB } 26,700$$

Step 4:

Input VAT attributable to the five categories of non-creditable items during the mixed-use period in 2026

= Input VAT attributable to the two categories of non-creditable items during the mixed-use period in the current year + Input VAT attributable to the three categories of non-creditable items during the mixed-use period in the current year

$$= 23,400 + 26,700 = \text{RMB } 50,100 \text{ (This amount shall be deducted from the input VAT in the VAT filing period of January 2027)}$$

PwC observations

The above hypothetical cases are based on the preliminary understanding of the provisions of PN15, and many technical points are subject to further clarification by the STA. The final interpretation and enforcement approach of PN15 shall be subject to future regulations issued by the STA. In addition, the scenarios assumed in the case are relatively simple, and various complex situations may arise in practice, leading to uncertainty in the calculation.

The takeaway

The introduction of the concept of “long-term assets” will bring new challenges to enterprises’ financial and tax work. The final part of PN15 puts forward specific requirements for enterprises’ routine management of long-term assets, including record-keeping and archiving of VAT credit documents, and establishment of special ledgers for the input VAT credit on long-term assets. Enterprises need to track the usage of long-term assets throughout their life cycle, design a unified data collection and extraction logic, establish VAT ledgers, and where necessary, consider leveraging tax technology to ensure compliant and scientific VAT management.

It is expected that a large number of supporting policies will be issued in the near future under the new regulatory framework. PwC will continue to monitor the development of VAT policies and share our insights with you to help you confidently navigate the new VAT regulations.

Endnote

1. VAT Law of the People’s Republic of China

https://www.gov.cn/yaowen/liebiao/202412/content_6994557.htm

For detailed interpretations of the VAT Law, please refer to PwC China Tax/Business Insights 2024 Issue 19:

<https://www.pwccn.com/en/china-tax-news/2024q4/chinatax-news-dec2024-19.pdf>

2. DIRs of the VAT Law of the People’s Republic of China

https://www.gov.cn/zhengce/content/202512/content_7053149.htm

For detailed interpretations of the DIRs of the VAT Law, please refer to PwC China Tax/Business Insights 2025 Issue 16:

<https://www.pwccn.com/en/china-tax-news/2025q4/chinatax-news-dec2025-16.pdf>

3. Public Notice Jointly Issued by the MOF and STA Regarding the Issuance of <Provisional Measures for the Input VAT Credit of Long-term Assets>

<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5247500/content.html>

Let's talk

For a deeper discussion of how this impacts your business, please contact **PwC's China Tax and Business Service Team**:

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News Flash

China Tax and Business Advisory

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