

Interpretation of supporting measures for the implementation of the VAT Law (Series II): Clarifications on taxable scope, incentive transition, sales amount calculation and taxable threshold

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Issue 2

In brief

Following the official implementation of the Value-Added Tax ("VAT") Law of the People's Republic of China¹ (hereinafter referred to as the "VAT Law"), China's VAT reform has entered into a critical stage of comprehensive implementation and refinement. Recently, the Ministry of Finance (MOF) and the State Taxation Administration (STA) have jointly issued a series of supporting documents for the new VAT Law. These documents address several key practical challenges in VAT from both policy and tax administration perspectives. They serve not only as a detailed implementation of the principles in the VAT Law but also as a continuation and optimization of the current VAT administration practices.

In this issue of China Tax/Business Insights, PwC outlines the core content and practical implications of

several key supporting documents covering the taxable scope, transitional preferential policies, sales amount calculation, and taxable threshold for small-scale taxpayers to help taxpayers further understand these provisions.

In detail

I. Key points of supporting documents

Supporting Documents	In Brief
<p>Public Notice Issued by the STA Regarding Relevant Matters on the Registration and Administration of General VAT Taxpayers² (STA Public Notice [2026] No.2) (hereinafter referred to as the "PN No.2")</p>	<ul style="list-style-type: none"> ✓ Except for natural persons and non-enterprise entities meeting certain criteria, taxpayers with cumulative VAT taxable sales amount exceeding RMB 5 million within a consecutive period of not more than 12 months or four quarters shall register as general VAT taxpayers; ✓ Adjustments to the sales amount arising from voluntary supplementary information or corrections, risk control inspections, or tax audits shall be attributed to the corresponding tax period based on the timing of tax liability; ✓ It clarifies the effective date of general taxpayer status and the timeline requirements for completing registration formalities.
<p>Public Notice Jointly Issued by the MOF and STA on Matters Concerning the Taxable Scope of VAT³ (MOF and STA Public Notice [2026] No.9) (hereinafter referred to as the "PN No.9")</p>	<p>It defines the specific scope of VAT:</p> <ul style="list-style-type: none"> ✓ the scope of goods subject to the 9% VAT rate; and ✓ the annotations for the sale of services, intangible assets, and immovable properties.
<p>Public Notice Jointly Issued by the MOF and STA on Transitional Matters Concerning Preferential VAT Policies After the Implementation of the VAT Law⁴ (MOF and STA Public Notice [2026] No.10) (hereinafter referred to as the "PN No.10")</p>	<ul style="list-style-type: none"> ✓ It specifies the transition and coordination of VAT preferential policies, including: VAT threshold for small-scale taxpayers; VAT-exempt items; items eligible for simplified tax calculation method at the prescribed 3%, 5%, or lower levy rates; the scope of application of differential taxation; VAT immediate refund upon payment policies; and the extension of existing incentives; ✓ Historically, VAT-related policies have been relatively scattered. PN No.10 systematically consolidates and classifies the existing incentives into three categories: "long-term effective policies", "transitional policies (effective from 1 January 2026 to 31 December 2027)" and "terminated policies"; ✓ Using a positive list approach, PN No.10 clarifies the scope of VAT incentives that remain in force. Domestic VAT incentives formally stipulated in official documents issued on or before December 31, 2025 but not included on the list shall cease to be valid.

<p>Public Notice Issued by the STA Regarding the Administration of VAT Threshold and Other Collection Issues⁵ (STA Public Notice [2026] No.4) (hereinafter referred to as the "PN No.4")</p>	<p>As a supporting administrative document, it clarifies matters regarding the tax administration of VAT threshold for small-scale taxpayers.</p>
<p>Public Notice Jointly Issued by the MOF and STA on the Calculation of the Sales Amount of VAT Taxable Transactions⁶ (MOF and STA Public Notice [2026] No.12) (hereinafter referred to as the "PN No.12")</p>	<p>It specifies the calculation method of the sales amounts on a net basis for specific taxable transactions.</p>

II. Specific taxable scope of VAT

The two appendices to PN No.9 serve as the definitive basis for the taxable scope following the implementation of the VAT Law, representing an overall continuity and standardization.

Appendix 1, Annotations on the Scope of Goods Subject to the 9% VAT Rate, provides annotations for twenty major categories of goods. While optimizing the detailed descriptions of goods subject to the 9% VAT rate, it also makes partial adjustments and clarifications to the scope, including agricultural products, edible vegetable oil, feed, and agricultural machinery.

Major changes in Appendix 2, Annotations on Sales of Services, Intangible Assets, and Immovable Properties, are as follows:

- Integration of "processing, repair, and replacement services", "modern services" and "lifestyle services" into a unified category of "production and lifestyle services";
- Adjustments to the content of "telecommunication services" whereby "mobile data services, SMS and MMS services, and internet broadband access services" are now included under "basic telecommunication services";
- Revision of the definition of "freight forwarding services", with an emphasis on the concept of "acting on behalf";
- Expansion of the definition of "sales of intangible assets". The catch-all clause "other equity-related intangible assets" is adjusted to "other intangible assets". A description has been added to clarify the scope of "other intangible assets" as "other assets that do not have physical form but can generate economic benefits", thereby broadening the scope of application (e.g. digital assets);
- Continuation of the definition of courier services and the VAT treatment for courier companies providing courier services (which are taxed under the category of delivery services) as stipulated in the Public Notice Jointly Issued by the MOF and STA Regarding the VAT Policies on Express Delivery Services and Other Related Matters⁷ (MOF and STA Public Notice [2025] No.5).

III. Increased VAT threshold for small-scale taxpayers paying tax on a transaction basis

PN No.10 converts the previously implemented VAT exemption for small-scale taxpayers paying tax on a monthly (or quarterly) basis into a statutory VAT threshold. Specifically, the threshold is set at a monthly sales amount of RMB 100,000 (or a quarterly sales amount of RMB 300,000). For small-scale taxpayers subject to tax on a transaction basis, the threshold is raised to RMB 1,000 per transaction (or per day). It also clarifies that where multiple taxable transactions occur within a single day, the daily sales amount shall be aggregated to determine the eligibility for the daily threshold, thereby preventing tax avoidance through splitting transactions. The above VAT thresholds for small-scale taxpayers shall be effective from 1 January 2026 to 31 December 2027. Furthermore, PN No.10 clarifies that for taxpayers applying the differential calculation method, the threshold applies to the sales amount on a net basis, i.e., adopting the amount excluding tax after deducting the relevant expenses, thereby standardizing the calculation basis.

IV. Under specific circumstances, natural persons shall determine the applicability of tax threshold based on the total sales amount of all taxable transactions in the current month.

As a supporting administrative document, PN No.4 further stipulates that when natural persons are involved in any of the following six specific circumstances, they shall determine whether they meet the monthly VAT threshold based on the sales amount of all taxable transactions incurred in that month. This means that where natural persons fall under any of these six specific circumstances, regardless of whether they also derive income other than from the specified six circumstances, they shall determine whether they have reached the tax threshold based on all their sales income in the current month. The income falling outside the six categories shall not be excluded from the calculation.

- Interest income from national treasury bonds, local government bonds, and financial bonds newly issued on or after 8 August 2025 (where the interest is received in a lump sum, the monthly sales amount shall be determined by amortization on a monthly basis);
- Leasing of immovable properties (where rental income is received in a lump sum, the monthly sales amount shall be determined by amortization on a monthly basis);
- Service income derived by the individuals providing services via internet platforms through internet platform enterprises, where the platform enterprise acts as an agent for tax filing;
- Sales of scrapped products by natural persons through "reverse invoicing", where the resource recycling enterprise acts as an agent for tax filing;

- Agency services for insurance, securities brokers, credit cards, and the tourism industry, where the relevant enterprise acts as an agent for tax filing;
- Other circumstances stipulated by the STA.

V. Refinements to the scope of VAT exemptions

PN No.10 largely retains the original policies for statutory VAT-exempt items. Some exemptions are permanently effective, while others are time-limited (i.e., valid until the end of 2027). It clarifies that "for-profit medical aesthetic institutions" do not qualify as medical institutions eligible for VAT exemption. Among the policies retained for a limited period, it is worth noting that income derived by managers of "publicly offered securities investment funds (closed-end and open-end)" from using fund assets to trade stocks and bonds remains VAT-exempt within the limited period. This explicitly excludes privately offered funds from the scope of VAT exemption.

VI. Continuation of simplified tax calculation method at the prescribed 3%, 5%, or lower levy rates

PN No.10 retains provisions allowing general VAT taxpayers to apply the simplified tax calculation method at levy rates of 3% or 5%. Most of these provisions are retained for a limited period (i.e., valid until the end of 2027). Specifically:

- VAT taxable activities conducted by asset management product managers in the operation of contractual asset management products may elect to apply for the simplified tax calculation method and calculate and pay VAT at the 3% levy rate. This explicitly excludes partnership asset management products from such treatment;
- The 5% levy rate mainly applies to "old projects" of general VAT taxpayers commenced before the Business Tax to VAT reform on 30 April 2016. A small portion of specific businesses may calculate VAT at reduced levy rates (such as 2%, 1.5%, 1%) lower than 3% in accordance with the relevant provisions;
- For general VAT taxpayers providing labour dispatch services and conducting new construction projects with materials supplied by the principal (Jia-supplied projects) commencing in 2026, the simplified tax calculation method shall cease to apply;
- The policy allowing general VAT taxpayers selling self-produced biological products to choose the simplified method at the 3% levy rate has also not been extended in PN No.10;
- Furthermore, PN No.10 clarifies: "From 1 January 2026 to 31 December 2027, for small-scale taxpayers engaging in VAT taxable transactions, excluding the sale or rental of immovable properties or the transfer of land use rights, VAT shall be subject to a reduced levy rate of 1%

instead of 3%." Therefore, while small-scale taxpayers may apply the simplified tax calculation method at 3% under the VAT Law in respect of the sale or rental of immovable property or the transfer of land use rights, such transactions are not eligible for the reduced 1% levy rate.

VII. Adjustments to the scope and taxation method of differential calculation

PN No.10 clarifies the time-limited policies for differential calculation (i.e., valid until the end of 2027), including: discount and rediscount businesses of financial institutions; relevant businesses of China Securities Depository and Clearing Corporation Limited; finance lease and financing sale-and-leaseback businesses within a specified scope; construction services subject to the simplified tax calculation method; labour dispatch services and security services provided by general VAT taxpayers (limited to labour dispatch companies holding "Labour Dispatch Operation Permits" and security service companies holding "Security Service Permits"); tourism services; transfer of land use rights acquired before 30 April 2016, where the simplified tax calculation method is applied; sales of old immovable property projects by general VAT taxpayers choosing the simplified tax calculation method; sales of immovable properties (excluding self-constructed) by small-scale taxpayers; sales of real estate development projects by real estate development enterprises applying the general tax calculation method; and trade-in transactions of gold and silver jewellery.

Based on the continuation of the existing policies for the use of differential calculation method, PN No.12 consolidates and clarifies the calculation methods for sales amounts of eight types of long-term effective differential taxation scenarios, including: transfer of financial products, passenger transport terminal services provided by general VAT taxpayers, air transport services, air transport sales agency services (for domestic/international segments), agency services for examinations conducted in China provided by overseas entities, visa agency services, and agency services for importing duty-free goods.

Furthermore, for various businesses adopting differential taxation method, PN No.10 clarifies the corresponding invoicing requirements for deducting relevant payments from the taxable sales amounts. The relevant payments shall not be deducted if the invoice is not issued in accordance with the regulations.

PN No.10 and PN No.12 clarify item by item the "scope of deductible payments" and "requirements for valid legal vouchers" applicable to differential taxation, aiming to avoid inconsistent implementation across regions and strengthen tax administration constraints.

Major changes to the differential taxation method include:

- ✓ Differential taxation and simplified taxation for human resources outsourcing services shall cease to apply;
- ✓ Differential taxation for labour dispatch services provided by small-scale taxpayers shall cease to apply;
- ✓ Differential taxation for water fees collected by property management companies shall cease to apply;
- ✓ When real estate development enterprises sell real estate development projects subject to the general tax calculation method, non-monetary demolition compensation expenses shall not be deducted from the sales amount. In addition, where a real estate development enterprise pays land consideration to government departments for acquiring land use rights and subsequently establishes a project company to develop the acquired land, the project company can only deduct the land consideration paid by the real estate development enterprise to government departments if the project company remains wholly owned by the real estate development enterprise that acquired the land throughout the project company's existence.

The takeaway

The core principle of this batch of supporting VAT documents is "continuity supplemented by optimization," which has profound practical significance for standardizing tax administration, reducing taxpayers' compliance costs, and fostering market vitality. For taxpayers, this principle not only further enhances policy certainty but also ensures greater consistency in policy implementation. Meanwhile, as taxpayers enjoy the policy benefits, it presents both opportunities and challenges. For example, the increase in the threshold for paying tax on a transaction basis is particularly favourable to small-scale taxpayers with temporary operations or sporadic taxable activities, effectively reducing their compliance costs and tax burdens. However, it should be noted that the provision on "aggregating multiple transactions within a single day for tax calculation" requires taxpayers to stop splitting transactions to evade tax payments. Consequently, this places higher demands on their tax compliance management.

In addition, taxpayers should focus on policy changes relevant to their specific industries and business scenarios. For businesses that occurred prior to the release of the supporting documents, if tax rate adjustments or changes in tax incentives are involved, taxpayers should make timely adjustments to their tax treatments in accordance with the latest regulations to prevent tax non-compliance risks.

It is also important to note that for preferential policies retained for a limited period, the end of 2027 will be a critical juncture for policy adjustment. At that time, relevant authorities will reassess these policies based on economic and social development, industrial development orientation, and fiscal revenue and expenditure status. This assessment will determine whether the related policies shall be extended, adjusted or abolished. Taxpayers should closely monitor the continuation of relevant policies.

PwC will continue to monitor developments in VAT regulations and share our observations to help you navigate the new VAT rules with confidence.

Endnote

1. Value-Added Tax Law of the People's Republic of China
<https://fgk.chinatax.gov.cn/zcfgk/c100009/c5237365/content.html>
2. Public Notice Issued by the STA Regarding Relevant Matters on the Registration and Administration of General VAT Taxpayers (STA Public Notice [2026] No.2)
<https://fgk.chinatax.gov.cn/zcfgk/c100012/c5246538/content.html>
3. Public Notice Jointly Issued by the MOF and STA on Matters Concerning the Taxable Scope of VAT (MOF and STA Public Notice [2026] No.9)
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5247431/content.html>
4. Public Notice Jointly Issued by the MOF and STA on Transitional Matters Concerning Preferential VAT Policies After the Implementation of the VAT Law (MOF and STA Public Notice [2026] No.10)
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5247434/content.html>
5. Public Notice Issued by the STA Regarding the Administration of VAT Threshold and Other Collection Issues (STA Public Notice [2026] No.4)
<https://fgk.chinatax.gov.cn/zcfgk/c100012/c5247426/content.html>
6. Public Notice Jointly Issued by the MOF and STA on the Calculation of the Sales Amount of VAT Taxable Transactions (MOF and STA Public Notice [2026] No.12)
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5247440/content.html>
7. Public Notice Jointly Issued by the MOF and STA Regarding the VAT Policies on Express Delivery Services and Other Related Matters (MOF and STA Public Notice [2025] No.5)
<https://fgk.chinatax.gov.cn/zcfgk/c102416/c5242261/content.html>

Let's talk

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News Flash

China Tax and Business Advisory

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