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News Flash
China Tax and Business Advisory

Interpretation of supporting measures for the implementation of the VAT Law (Series III): Clarifications on input VAT credit, assets restructuring, mixed sales, and timing of tax liability

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In brief

On 30 January 2026, the Ministry of Finance (MOF) and the State Taxation Administration (STA) jointly issued the Public Notice on Matters related to the Deduction of Value-Added Tax (VAT) Input Tax and Other Issues[1] (Public Notice of MOF and STA [2026] No.13, hereinafter referred to as "PN No.13"). As a key supporting document under the new VAT Law, PN No.13 maintains and refines the original policies on input VAT credit, expands the scope of non-taxable treatment for assets restructuring, provides illustrative guidance for transactions involving multiple tax rates, and introduces new rules for the timing of tax liability for "advance receipt of payment for services provided in instalments", providing clearer guidance for enterprises to ensure compliance under the new VAT Law.

In this issue of China Tax/Business Insights, PwC provides a detailed analysis of the core provisions of PN No.13, highlighting differences between the new and original policies, industry impacts, and key areas of uncertainty, to help enterprises accurately understand and comply with the requirements of the new policies.

In detail

I. Input VAT credit: simplifying the administration of input VAT credit and clarifying the calculation formula for unallocated non-creditable input VAT

Article 1 of PN No.13 standardizes five core input VAT issues: the procurement of motor vehicles, the purchase of domestic passenger transportation services, the purchase of road, bridge and toll gates access services, the apportionment of unallocated non-creditable input VAT, and the formal document requirements for input VAT credit.

Specifically, for general VAT taxpayers purchasing goods (excluding fixed assets) or services used for items subject to the simplified VAT calculation method, VAT-exempt items, or non-taxable transactions not eligible for input VAT credit, where the input VAT cannot be specifically allocated, the calculation formula is as follows:

$$\text{Non-creditable Input VAT for the current period} = \text{Total unallocated Input VAT for the current period} \times \frac{\text{Sales amount of the items subject to the simplified VAT calculation method} + \text{Sales amount of VAT-exempt items} + \text{Revenue from non-taxable transactions not eligible for input VAT credit}}{\text{Total sales amount for the current period} + \text{Total revenue from non-taxable transactions for the current period}}$$

PwC observations	Overall, Article 1 of PN No.13 basically maintains the original policies and operational practices while introducing optimizations. For instance, it clarifies that input VAT on motor vehicle purchase is directly credited based on the tax amount shown on the invoice. Regarding electronic tickets for railway and air transport, while the original policy under the Public Notice of MOF, STA and GACC [2019] No.39 (hereinafter referred to as "PN No.39") adopted a formula-based calculation method, PN No.13 allows a direct credit based on the VAT amount stated on the invoice, thereby simplifying the credit method and helping to reduce financial accounting costs for enterprises. It is worth noting that although PN No.13 does not mention "electronic general invoices" (which were eligible for

input VAT credit under the original policy), according to a Xinhua News Agency report reposted by the STA, general VAT taxpayers obtaining VAT electronic general invoices listing the passenger identity information of their employees can also credit input VAT in accordance with regulations. However, whether the specific creditable tax amount will continue to follow the rule prescribed in PN No.39 remains to be clarified by the STA. Enterprises applying the aforementioned formula to apportion the unallocated non-creditable input VAT need to establish a clear revenue classification system to monitor the revenue from each type of non-taxable transaction. In addition, the Detailed Implementation Regulations (DIRs) of the VAT Law requires an annual reconciliation for the unallocated non-creditable input VAT. However, as specific administrative measures for this reconciliation have not yet been released, taxpayers must closely monitor the release of subsequent supporting documents.

II. Non-taxable treatment of assets restructuring: expanding the scope of application and adding new applicable conditions

PN No.13 continues and optimizes the provisions regarding the non-taxable treatment of assets restructuring under the original policies[2] and establishes such provisions as a long-term mechanism (without setting a validity period). This reflects the State's tax policy orientation of supporting enterprise transformation, upgrading, as well as the integration of high-quality resources. Where taxpayers carry out assets restructuring through merger, division, sale, swap, or other methods, and satisfy all four specified conditions at the same time, the transfer of goods, financial instruments, intangible assets, and immovable properties involved shall not be subject to VAT, and the corresponding input VAT may be credited in accordance with the regulations. PwC summarizes the key points of the new policy as follows:

Key points	Provisions of PN No.13	PwC Observations
Expanding Scope	Transfer of **goods, financial instruments, intangible assets, and immovable properties** involved in assets restructuring.	The literal text of the original policy only applied to "goods, immovable properties, and land use rights". In practice, disputes often arose regarding whether intellectual property, financial instruments, or virtual assets involved in restructuring also qualified for non-taxable treatment. The new policy explicitly includes "goods, financial instruments, intangible assets, and immovable properties" in the scope, helping to reduce transaction disputes and costs.
Refining Assets Package Requirements Condition	When implementing assets restructuring, taxpayers must transfer all or part of the assets, together with associated claims, liabilities, and employees, forming an **assets package.** The **assets package** must **simultaneously** contain assets, claims, liabilities, and employees.	Consistent with the original regulation, the core is the completeness of the assets transfer. PN No.13 repeatedly emphasizes the concept of an "assets package" and lists its constituent elements but does not provide a specific definition or criteria for determining "associated."

Adding Independent Business Condition	The target of the assets restructuring must be a business operation capable of **relatively independent operation.**	The explicit requirement that the restructuring target must be a "business operation capable of relatively independent operation" raises the threshold for policy application, preventing enterprises from packaging the transfer of individual taxable assets as assets restructuring to avoid tax. However, the new policy does not clarify specific criteria for "relatively independent operation", such as how to define "independent", what operational elements are required, or what kind of supporting evidence enterprises need to provide. Enterprises may need to consider factors such as whether the business can generate independent cash flow, has a dedicated operation team and management system, possesses a separate budget and financial system, or has an independent customer base. Recommendations: Enterprises are advised to identify core operational elements of the target business, prepare relevant supporting documents (e.g., operation plans, financial statements, personnel lists), and communicate with the competent tax authorities in advance to confirm compliance with the "independent operation" requirement.
Adding Reasonable Commercial Purpose Condition	Assets restructuring must have a **reasonable commercial purpose** and must not have the reduction, exemption, or delay of VAT payment, or the increase or advancement of VAT refund, as its main purpose.	This requirement echoes the general anti-avoidance rule in Article 53 of the DIRs of the VAT Law. However, as the specific determination criteria and burden-of-proof requirements for this rule are not yet clear, determination of the reasonableness of "commercial purpose" is subjective and may trigger tax disputes. Recommendations: Enterprises are advised to clarify the commercial logic and core purpose of the transaction, prepare relevant explanatory materials (e.g., restructuring plans, business plans, tax impact analysis) and communicate with tax authorities in advance to mitigate compliance risks.
Matching Taxpayer Status Requirement Condition	Where the transferor is a general VAT taxpayer, the transferee must also be a **general VAT taxpayer**.	The original policy did not restrict the transferee's taxpayer status. The new rule clarifies that if the transferor is a general VAT taxpayer, the transferee must also be a general VAT taxpayer. If the transferor is a small-scale VAT taxpayer, PN No.13 imposes no restriction on the transferee's status.
Clarifying Input VAT Credit Rules	Clarifies that "non-taxable" assets restructuring does not fall under "non-taxable transactions not eligible for input VAT credit" as specified in Article 22 of the DIRs of the VAT Law.	This clarification in PN No.13 helps to reduce the tax disputes between tax authorities and enterprises, improving the certainty of policy application.
Narrowing Input VAT Carry-over Rules upon Deregistration	Where a taxpayer is **merged** into another taxpayer due to assets restructuring and is required to perform tax deregistration, the input VAT which has not yet been credited before deregistration can be	PN No.13 limits the scope of "carry-over of input VAT for deregistered enterprises" under the original policies specifically to "merger" scenarios. Consequently, where an enterprise undergoes a "spin-off into two or more new establishments" resulting in the dissolution and deregistration of the original enterprise, its uncredited input VAT may not

	carried over and credited by the post-merger taxpayer.	be eligible for carry-over. Enterprises planning such restructuring are advised to assess the VAT impact of adopting the non-taxable treatment in advance. In addition, while the original policies stipulated a procedure for the transfer of the Form for Transfer of Input VAT Credit Balance in Assets Restructuring between the in-charge tax authorities of the two parties, this requirement is not addressed in PN No.13.

PN No.13 does not mention procedural regulations for the non-taxable treatment of assets restructuring. From the perspective of tax principles, assets restructuring is neither a taxable VAT transaction nor a tax incentive. Therefore, neither the new nor old regulatory framework mandates filing or approval procedures.

However, from the perspective of taxpayers, PN No.13 adds a series of conceptual criteria. The lack of procedural regulations makes it difficult for taxpayers to clearly define the boundary between taxable and non-taxable. Enterprises are advised to prepare complete documentation to substantiate that the assets restructuring (e.g., restructuring plans, descriptions of asset package composition, business independence analysis, explanation of reasonable commercial purpose) satisfies the policy requirements. Communicating with competent tax authorities or seeking advance rulings to obtain tax certainty is advisable to avoid inability to apply the non-taxable treatment due to differences in interpretation.

Furthermore, for step-by-step restructuring involving multiple transfers, the original policy stipulates that the non-taxable treatment may apply if "the ultimate transferee and the recipient of the workforce are the same entity or individual". This provision is not covered in PN No.13, which increases the VAT uncertainty for step-by-step restructuring transactions.

III. A single taxable transaction involving two or more tax rates (mixed sales): clarifying the "main business" in four scenarios

The VAT Law and its DIRs stipulate that where a single taxable transaction involves two or more tax rates (or levy rates, the same applies hereinafter), the tax rate applicable to the main business of the taxable transaction shall be applied. The main business is the one in the dominant position, reflecting the essence and purpose of the transaction, while the auxiliary business is the one which is necessary to supplement the main business and with the occurrence of the main business as a pre-requisite. PN No.13 lists four typical scenarios and directly specifies the "main business" for these transactions. Other similar transactions may make reference to these rules:

Industry involved	Provisions of PN No.13 on the main business	PwC Observations
Software Industry	1. Selling software products while simultaneously providing installation, maintenance, training, and other services is subject to the tax rate applicable to **software products**.	This policy follows the treatment approach of Caishui [2005] No.165 and emphasizes the simultaneous occurrence of the business activities.
Manufacturing and Construction/Installation Industry	2. Selling goods such as portable prefabricated houses, machinery and equipment, and steel structural components while simultaneously providing installation services is subject to the tax rate applicable to **goods**.	**Significant changes in tax treatment:** Under the original policy[3], these were treated as concurrent businesses with separate VAT calculations, and certain installation services could apply the simplified VAT calculation method as the projects with materials supplied by the principal (Jia-supplied projects). On one hand, Public Notice of MOF and STA [2026] No.10 abolishes the simplified method for Jia-supplied projects; on the other hand, PN No.13 also clarifies that this scenario constitutes "a single transaction" where goods are the main business. Consequently, the tax burden for enterprises may increase compared to previous practices.
Charging and Battery Swapping Platforms and NEV Industry	3. Selling electricity products while simultaneously collecting service fees for battery replacement, positioning, and maintenance in the charging and battery swapping business is subject to the tax rate applicable to **electricity products**.	Consistent with the "Implementation Criteria regarding VAT Policies for Charging and Battery Swapping Businesses" released on the STA's official website in 2025[4]: "From the perspective of business substance, the charging and battery swapping business constitutes the sale of electricity products to purchasers. The purchaser's primary purpose in concluding the transaction is to obtain and use electricity products, while the provision of other services is involved in this process. Therefore, the substance of charging and battery swapping-related businesses constitutes a mixed sales activity with the sale of electricity as the main business. Consequently, the VAT rate of 13% applicable to the sale of electricity products shall apply to the total sales amount derived."
Car Rental Platforms	4. Providing vehicle leasing services while simultaneously collecting service fees for information technology and other services is subject to the tax rate applicable to **leasing services**.	Similar to the logic for charging and battery swapping businesses above, the user's purpose in purchasing this service is to obtain the right to use the means of transport, while services such as information technology and positioning are of an auxiliary nature. Therefore, the tax rate for leasing services shall apply.
Other Transactions	Taxable transactions **similar** to the above scenarios shall make **reference** to these rules.	Unlike the logic in the original policy of judging the applicable tax rate based on the enterprise's "core business", under the new VAT system, the rate is defined based on the "main business" of each **individual transaction**. However, guidance remains unclear on the specific criteria for determining the "main business" (e.g., by proportion of transaction amount, proportion of cost, importance of transaction substance, or core customer needs). While the four typical scenarios listed in PN No.13 provide a certain degree of

		guidance and reflect the approach of determining the main business based on transaction substance and purpose, there may be different interpretations in practice regarding how to define the "similarity" of businesses. For example, should the sales of medical devices with commissioning services be implemented by reference to Item 2 and apply the tax rate applicable to goods? In certain industries where equipment is sold together with high-end installation services, and the installation service amount accounts for more than 50% of the total price, will this be considered a transaction similar to Item 2 and the tax rate applicable to goods still apply? Furthermore, PN No.13 targets businesses where a single transaction involves two or more tax rates. The core prerequisite for "a single transaction" is that there is an obvious main-auxiliary relationship between the different businesses and they are provided "simultaneously". If the enterprise's relevant businesses can be segregated, without a strong connection, covered by separate contracts and charged independently, they constitute "two transactions". These should still be accounted for separately and taxed according to their respective applicable rates, with no conflict with this rule. Recommendations: Enterprises are advised to clearly delineate whether a "goods + services" arrangement constitutes a single transaction or two transactions. If it is a single transaction, the core purpose of the transaction and the auxiliary/supporting businesses should be clearly defined in the contract. Relevant documents such as delivery notes and acceptance reports should be retained. Enterprises should communicate with the tax authorities in advance to confirm the criteria for determining the main business to avoid applying the incorrect tax rate.

IV. Timing of tax liability: refining and standardizing tax administration

PN No.13 clarifies the timing of VAT liability arising under four scenarios, among which the new rule for the timing of tax liability for services provided in instalments constitutes a significant change.

Key Points	Provisions of PN No.13 on Time of Tax Liability Arising	PwC Observations
Simplifying the rule for timing of tax liability for the production and sale of large-scale goods	For goods such as large machinery equipment, ships, and aircraft with a production period exceeding 12 months, the timing of tax liability shall be the date of **receipt of payment**	Under the original policies, the sales of large-scale goods were treated differently depending on whether the payment was received directly or in advance: for direct payment, it was the date of receiving the payment or obtaining the claim for payment (the date of obtaining the claim shall be

	or the payment date specified in the written contract.	further determined in accordance with the contract agreement or the date of delivery of goods); for advance receipt of payment, it was the date of receiving the advance payment or the payment date agreed in the written contract. PN No.13 adjusts the timing of tax liability for the sales of large-scale goods. It no longer distinguishes between direct payment and advance payment, nor does it consider whether the goods have been delivered. Instead, the timing of tax liability is determined based on the contractual agreement or cash flow.
New rule for timing of tax liability for advance receipt of payment for services provided in instalments	Where services are sold with advance payment and with the services provided subsequently in instalments or batches, the timing of tax liability shall be determined based on the earlier of "the day the service actually commences for the first time" and "the day agreed in the contract". VAT shall be filed and paid on the total amount received.	**Significant changes in tax treatment:** The original policy, Caishui [2016] No.36 (Circular No.36), had no special provisions for general advance receipt of payments for services. For the sales of services, the tax liability arose 1) the date on which the sales payment is received or 2) the date on which the taxpayer obtains the claim for payment (or the date of invoice issuance if an invoice is issued in advance). Specifically, 1) refers to payment received during or after the provision of services by the taxpayer; 2) refers to the payment date specified in the written contract; if no contract is signed or the payment date is not specified in the contract, it shall be the date on which the services are completed. For advance payments received for services, assuming no invoice is issued and no payment date is agreed in the written contract, the VAT liability shall not arise until the date on which the services are completed. Regarding the scenario of "payment received in advance for services provided in instalments", PN No.13 clarifies the "principle of whichever occurs first" and requires that VAT be declared on the full amount received, thus effectively plugging the loophole of delayed tax filing. Recommendations: Taxpayers must pay attention to the adjustment to the timing of tax liability, retain service contracts and service delivery records, and clearly define "the date of first service provision" to avoid omitted declarations and tax risks. Additionally, for industries adopting "prepayment and post-consumption models" (e.g., prepaid mobile phone charges, education and training, leasing, property management, catering services), it is necessary to promptly assess the tax impact of the new rule on their business models. Attention should also be paid to the procedures for tax refund in the event of consumer refunds after one-off tax payment.
Refining the timing of tax liability for sales of immovable properties	The completion time of the transfer of immovable properties (i.e., the time the tax liability arises) shall be determined based on the earlier of the completion of ownership	Under the original policies, "ownership registration" was regarded as the indicator for the completion of immovable properties transfer, without considering the scenario of "actual delivery" (e.g., delivering the immovable properties before ownership registration). PN No.13 refines this regulation by

	registration or the actual delivery of the immovable properties.	clarifying that both "ownership registration" and "actual delivery" constitute the completion of transfer. Consequently, the timing of tax liability shall be determined based on whichever occurs earlier, resolving the tax timing discrepancies when delivery and ownership registration are not synchronized. Real estate development enterprises must ensure timely fulfilment of their tax liabilities and standardize the retention of supporting documents for the "delivery date" such as delivery notices, owner acknowledgement receipts, and key handover records.
Adjusting the applicable scope for interest income of financial institutions accrued but not received	For interest accrued but not received by financial institutions within 90 days from the interest settlement date after granting a loan, VAT shall be paid in accordance with the current regulations; for interest accrued but not received after 90 days from the interest settlement date, VAT shall be temporarily suspended and paid upon actual receipt of the interest. Financial institutions refer to banks, credit unions, finance companies, trust companies, securities companies, insurance companies, financial leasing companies, securities fund management companies, and other financial institutions approved by the People's Bank of China, the National Financial Regulatory Administration, and the China Securities Regulatory Commission to engage in financial and insurance businesses.	This follows the provisions of Circular No.36 and Caishui [2016] No.140. The specific scope of "financial institutions" has been slightly adjusted, and the provision applicable to "securities investment funds" has been deleted.

The takeaway

In summary, PN No.13 optimizes and refines the rules for high-frequency tax scenarios faced by enterprises. It not only maintains most of the existing policies but also resolves long-standing practical difficulties and areas of dispute, effectively addressing regulatory gaps in tax administration.

The implementation of the new rules provides much-needed regulatory certainty for enterprises that had previously deferred mergers and acquisitions, restructuring, or industrial integration in anticipation of the new policy. This is particularly advantageous for assets restructuring within high-tech sectors (involving significant transfers of intangible assets) and the financial industry (involving transfers of financial instruments). However, enterprises are still advised to confirm the newly added conditions for non-

taxable treatment (such as the definition of "business operation capable of relatively independent operation") with the tax authorities in advance to prevent the misapplication of policies.

For industries such as software, construction and installation, charging and battery swapping, and vehicle leasing platforms, the clarification of the main business would help enterprises to reduce uncertainty in tax treatment. For other enterprises involved in integrated transactions, they are recommended to promptly review business processes and contractual terms, establish criteria for determining the main business, and clarify the applicable tax rates.

For the service industry, the most significant change lies in the provisions regarding advance receipt of payment for services provided in instalments. Relevant enterprises should consider whether it is necessary to optimize transaction and billing models to mitigate tax costs and compliance risks.

Additionally, all enterprises must pay attention to the new regulations on input VAT credit. It is essential to optimize internal document management and financial accounting processes. In conjunction with regulations on long-term assets and the allocation of non-creditable input VAT, enterprises should ensure that their systems and documentation can support compliant tax filings.

PwC will continue to monitor developments in VAT regulations and the implementation practices of local tax authorities. We are committed to providing enterprises with professional tax consultation and practical guidance to help them efficiently navigate policy changes and achieve compliant operations and sustainable development.

Endnote

1. Public Notice of MOF and STA [2026] No.13
   https://fgk.chinatax.gov.cn/zcfgk/c102416/c5247494/content.html
2. The original policies on assets restructuring include:
   - STA Public Notice [2011] No.13
     https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194217/content.html
   - STA Public Notice [2012] No.55
     https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194334/content.html
   - STA Public Notice [2013] No.66
     https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194410/content.html
   - Caishui [2016] No.36, Appendix 2
     https://fgk.chinatax.gov.cn/zcfgk/c102416/c5203752/content.html

3. The original policies governing the sale of goods such as portable prefabricated buildings, machinery and equipment, and steel structural components concurrently with the provision of installation services are as follows:
   - STA Public Notice [2017] No.11
     https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194728/content.html
   - STA Public Notice [2018] No.42
     https://fgk.chinatax.gov.cn/zcfgk/c100012/c5194814/content.html
4. Regarding the Implementation Guidelines for VAT Policies Applicable to Charging and Battery Swap Services
   https://www.chinatax.gov.cn/chinatax/c102414/c5238551/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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