中國稅務及投資顧問有限公司
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VAT Accounting & Planning

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Value Added Tax

1. VAT accounting treatment
2. VAT planning

General VAT Accounting Treatment

VAT is computed ex selling price and collected from the buyer. Input VAT is not charged to costs.

VAT Payable (balance sheet)

Dr. input VAT	Cr. Output VAT

Factory A sells some vehicle tyres to Co B for 5,000. Rubber costs 4,000 in domestic market. Both selling price and cost are exclusive of VAT. Assuming that VAT rate is 17% and consumption tax (CT) rate is 8%.

See the accounting treatment below.

Dr	AR (including VAT 850)	5,850	
Dr	COS (CT)	400	
	Cr Sales		5,000
	Cr VAT payable		850
	Cr CT Payable		400

CT = 5,000*8% = 400 (borne by seller)
VAT = (5,000)*17% = 850 (borne by buyer)

Input VAT = 4,000*17% = 680

Dr	COS	4,000	
Dr	VAT payable	680	
	Cr Account payable		4,680

Gross Profit = sales – costs – CT
GP = 5,000-4,000-400 = 600
VAT payable = 850-680 = 170
CT payable = 400

VAT and planning

Tax planning on sales promotion

Tax planning on sales promotion

Case 1

Case: Sales margin for product is 60%, selling price =100, cost is 40. Seller, a general VAT taxpayer, is considering following sale promotion options:
(A) Selling product at 50% discount
(B) Buy one get one free

Q. Which option is more cost effective to the seller ?

Tax planning (A) 50% price disc't

VAT
- VAT payable = 50 / (1 + 17%) x 17% - 40 / (1 + 17%) x 17% = 1.45

Corporate income tax (CIT)
- Profit = 50 / (1 + 17%) – 40 / (1 + 17%) = 8.55
- CIT = 8.55 x 25% = 2.14
- After-tax profit = 8.55 – 2.14 = 6.41

Tax planning (B) buy one get one free (quantity discount)

- VAT payable for 100 sales
- = 200 / (1 + 17%) x 17% - 80 / (1 + 17%) x 17% = 17.44
- Deemed sale for gift：100
- Total VAT payable = 17.44

Tax planning (B) gift valued at 30

- Profit
- = 100 / (1 + 17%) – (40 x 2) / (1 + 17%) = 17.09
- CIT
- = (100 / (1 + 17%) - 80 / (1 + 17%))x 25%
- = 17.09 x 25% = 4.27
- Profit after tax
- = 17.09 – 4.27 = 12.82

A Comparison on sales promotion

	Option A (Disc't)	Option B (Gift)	Option B Adjust (1/2)
VAT	1.45	17.44	8.42
CIT	2.14	4.27	2.135
Profit B/4 tax	8.55	17.09	8.54
Profit after tax	6.41	12.82	6.41

Tax planning on using a sale company

Tax planning – sale company

Case 2

Company A and Company B are under common ownership. A enters a wholesale distribution agreement with B.

Option 1: B acts as A's commission agent

Option 2: B buys from A

Tax planning – sale company

C2.1

Option 1: B acts as commission agent. Product selling price = 1,000. For every item sold, B receives 200 commission.

VAT: A 1000*17%=170, B (800-800)*17%=0.

BT: B has to pay 10 BT. (10=200*5%)

Total tax = 170+10=180

Tax planning – sale company

C2.2

Option 2: B buys from A at 800

VAT: A 800 * 17% = 136,

VAT: B (1,000 - 800) * 17%=34.

Ttl tax = 136 + 34 = 170, with no BT.
Saving= 10.

A's saving = 170 - 136 = 34, and B's loss = 10-34 = -24

Tax planning in mixed sale

Case 3

- A company sells air-conditioner (pays VAT) and provides installation services (pays BT at 5%) to the same customer.
- Cost of air-con unit is 100,000 and sale is 120,000 for the month.
- What tax status should the company consider?

Tax planning in mixed sale

C3.1

- Percentage of value added = (R)
- = (120,000-100,000) / 120,000*100% = 16.67%
- Break-even (B/E) if VAT=BT
- At B/E, **Sale * R * 17% = Sale * 5%**
- R = 5%/17% = 0.2941 (or 29.41%)

Conclusion:

- Actual % of value added (16.67%) is less than 29.41%. Should pay VAT.

Tax planning in mixed sale

C3.2

Checking:

- 120,000 * 5% = 6,000 (BT)
- (120,000-100,000)*17% = 3,400 (VAT)
- Tax saving = 2,400

Note:

- If actual % value added is > 29.41% (R) , then taxpayer should try to pay BT.

Mixed vs. Supplementary sale

- Mixed sale: Same transaction involving the supply of goods and non-taxable services to the same buyer; pay one type of tax.
- Supplementary sale: Different transaction with different buyers; pay 2 or more types of taxes.
- Note: using separate contracts to split the mixed sale into two transactions is not allowed under the VAT rules.

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