



VAT Special Invoice and export transactions

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Legal Authorities

1. PRC Administrative Measures for the Administration of Tax Invoices, and its Detailed Rules, issued by the MOF and the SAT respectively
2. PRC Administrative Rules for the Use of VAT Special Invoices, issued by the SAT

2

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Sales sum, VAT, and invoiced value

Invoiced value including VAT = 100

General taxpayer

VAT = $100 / 1.17 \times 17\% = 14.53$

Sales sum = $100 / 1.17 \times 100\% = 85.47$

Small scale taxpayer

VAT = $100 / 1.03 \times 3\% = 2.9$

3

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Qualification for being recognized as VAT general taxpayer

1. Annual sales
 - Production enterprise > 0.5 Million
 - Commercial enterprise > 0.8 Million
 2. (i) taxpayer submit application, (ii) subject to conditions being satisfied, being recognized by tax bureau
- Note: General taxpayer can claim input credit

4

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Computation of VAT payable

	Method	VAT payable
I	Simple computation (Small scale taxpayer)	Sales amount x levy rate #
II	General computation (General taxpayer)	Output VAT - Input VAT

No input credit available

5

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Comparing general VAT payer and small scale taxpayer (1)

General VAT payer

➢ Sales 1,000; (VAT 17% = 170)

➢ Purchase 900; (VAT 17% = 153)

➢ VAT = $(1,000-900) \times 17\% = 170 - 153=17$

Small-scale taxpayer

➢ VAT = $1,170/1.03 \times 3\% = 34.08$

6

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Comparing general VAT payer and small scale taxpayer (2)

General VAT payer

- Sales 1,000; (VAT 17% = 170)
- Purchase 100; (VAT 17% = 17)
- VAT = (1,000-100) x 17% = 153

Small-scale taxpayer

- VAT = 1,170/1.03 x 3% = 34.08

7

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Comparison between two methods

VAT	LOW	HIGH
Sale	1000	1000
Purchase	900	100
Value added	100	900
VAT at 17% =	17	153
Compare 1170 / 1.03 x 3% =	34.08	34.08

8

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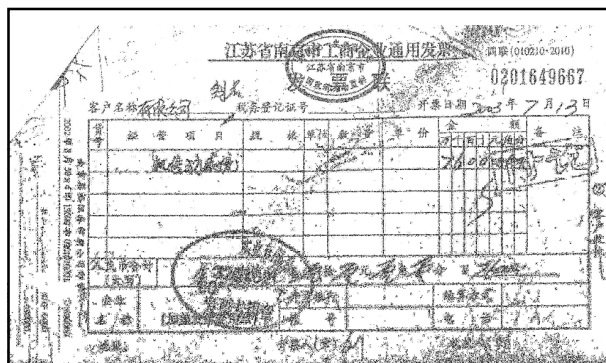
Comparing tax burdens

Percentage of Value Added and Tax Rate

- Percentage of value added = (Sales – Purchase) / Sales x 100%
- The two things are not the same.

9

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10

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4400054140 广东增值税专用发票 No 02571739

货物或应税劳务名称	规格型号	单位	数量	单价	金额	税率	税额
	1.75米	卷	9000	1.1068111	10769.23	17%	1830.77
合计					¥ 10769.23		¥ 1830.77
价税合计(大写)					壹万贰仟陆佰元整		
					(小写) ¥ 12600.00		

11

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VAT Liability vs. Tax Invoice

- VAT liability is independent of the type of tax invoices used.

12

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Function of tax invoices

1. Sales recognition
2. Supporting document for Accounting
3. Use for tax computation purpose
4. Receipt

13

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Scope of Invoice Administration

- | | |
|-------------|------------|
| 1. Printing | 4. Issue |
| 2. Purchase | 5. Custody |
| 3. Use | |

14

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Unlawful acts of handling tax invoices

1. Purchasing tax invoices from other party than the tax bureau
2. Sales or transfer of tax invoices for a profit
3. Providing tax invoices for, or borrow tax invoices from, other parties
4. Using receipts in lieu of tax invoices

15

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Unlawful acts for issuing invoices

1. Failure to issue invoices for taxable transaction
2. Borrowing, transferring or issues invoices on behalf of third party
3. Issuing invoices for fictitious transactions

16

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Unlawful acts for issuing invoices

4. Goods not matched with details in invoices issued
5. Invoice issued for transactions falling outside VAT scope

17

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Blank tax invoices – Internal control

1. Designated person keeping tax invoices
2. Using safe properly
3. Division of duty between custody and issue of invoices
4. Division of duty between keeping stamp and using stamp for invoices

18

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Rules for dealing with lost or stolen tax invoice

1. Reporting losses to tax bureau immediately
2. Filing application of lost invoices, "list of lost/stolen invoices", application for public notice of "Declaration of lost invoices", and following information:
 - (a) Evidence substantiating the losses
 - (b) Text for public notice of void invoices
 - (c) Invoice purchase book
 - (d) Identity card information of handling staff

19

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Use of tax Invoice

20

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Revenue Measurement (1A)

- Wholesaler sold goods to retailer for RMB1,000,000, with a trade discount of 20%
- VAT Special Invoices: RMB 1 million
- Credit note issued: RMB200,000
- What is the accounting and tax treatment?

21

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Revenue Measurement (1B)

Under Accounting Rules

- Sales recognized: RMB 0.8 million

Under VAT and IT rules

- Sales amount: RMB 1 million
- The trade discount must be printed in the same VAT special invoices in order to get the deduction from gross revenue. < SAT document Guo Shui Fa (1997) No. 472 >

22

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Revenue Measurement (2A)

- After receipt of goods, retailer discovers that some goods have quality problems. Wholesaler agrees to give a 10% discount on gross amount of RMB 1 million.
- So, it issues a second credit note for 0.1 million to the retailer.
- Account receivable from retailer is further reduced from 0.8 million to 0.7 million.
- What is the tax implication?

23

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Revenue Measurement (2B)

- The use of credit note is NOT tax efficient.
- What alternatives do we have?

24

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Revenue Measurement (2C)

- Since the quality problem is discovered after delivery, wholesaler cannot state the sales discount in the original VAT special invoices
- Two possible treatments, depending whether:
 - (i) retailer can return tax invoices; or
 - (ii) retailer cannot return tax invoices

25

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Revenue Measurement (2D)

- With returned tax invoices, wholesaler can issue revised tax invoices
- If retailer cannot return tax invoices, wholesaler needs to obtain from retailer a copy of "Notice of Issuing Credit Notes" issued by the tax bureau in charge of the city where retailer is located before wholesaler can issue credit note and reduce the sales amount for VAT and IT purposes. < SAT Document Guo Shui Fa (2006) No. 156; >

26

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Quality Problem and VAT

Quality problem

- (a) Goods returned in part (discount)
- (b) Goods returned and replaced in whole (no discount)

27

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Quality Problem and VAT

Import shipment

- Return of import goods (Refund of Import duty & VAT problem)
- Return of import goods **with** compensation goods supplied at no consideration (exemption on import duty and VAT)

28

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Quality Problem and VAT

Export shipment

- Return of export goods (Export collection **reversed** + Return of VAT export refund)
- Return of export goods **with** compensation goods supplied at no consideration (duty exemption)

29

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VAT export rebate

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VAT export rebate (1)

Export sales using domestically purchased inputs:
Domestically made input → processing → export

Conditions for claiming VAT export rebate

1. Goods subject to VAT
2. Transactions treated as sales (not as payable)
3. Goods have physically left country *
4. Foreign exchange verification procedure completed

31

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VAT export rebate (2)

Documents required:

1. VAT export invoice
2. Purchase invoice or VAT payment certificate
繳款書 (Jiao Kuan Shu)
3. Export declaration form
4. Foreign exchange verification note
5. Sale contract

32

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Accounting for Export Refund

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Legal authority (export rebate)

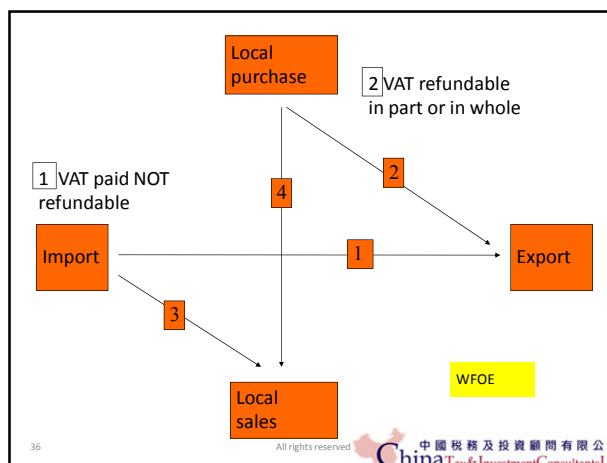
1. PRC VAT Tentative Regulation, & detailed implementation rules
2. Cai Shui (2002) No. 7, jointly issued by MOF and SAT
3. Guo Shui Fa (2002) NO. 11, issued by SAT

34

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Diagram Exempt-credit-refund method

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36

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What is meant by exempt-credit-refund (mian di tui)?

- Exempt (Mian) = VAT for the export sales are not collected
- Credit (Di) = Input VAT on export is used to offset (credit) the output VAT on domestic sales
- Refund (Tui) = Taxpayer entitled to refund of un-credited portion of input VAT

37

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VAT Rebate Rates

Rebate rates range from 17% to 0%, depending on the categories of goods.

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