

PRC VAT Regulations

Alfred K. K. Chan

30th January 2007

1

Taxpayer and tax invoices comparison

	General taxpayer	Small-scale taxpayer
VAT special invoices	Yes	No (1)
Ordinary invoices	Yes	Yes

- The small-scale taxpayer may request the tax office to issue VAT special invoice on its behalf. The small-scale taxpayer pays a 6% VAT at the tax office.

2

Sales sum, VAT, and invoiced value

Invoiced value including VAT = 100

General taxpayer

$$\text{VAT} = 100 / 1.17 \times 17\% = 14.53$$

$$\text{Sales sum} = 100 / 1.17 \times 100\% = 85.47$$

Small scale taxpayer

$$\text{VAT} = 100 / 1.06 \times 6\% = 5.67 \text{ (production enterprise)}$$

$$\text{VAT} = 100 / 1.04 \times 4\% = 3.85 \text{ (Non-production enterprise)}$$

3

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; # Certification of supplier invoices at tax bureau.

4

Illustration: general taxpayer

$$\begin{array}{l} \text{Sale} \quad 300 \times 17\% = 51 \\ \text{Purchase} \quad 100 \times 17\% = 17 \end{array} \Rightarrow \text{VAT} = 200 \times 17\% = 34$$

Where

- 51 is output VAT
- 17 is input VAT
- 34 is VAT payable
- 300 is VAT sales amount

5

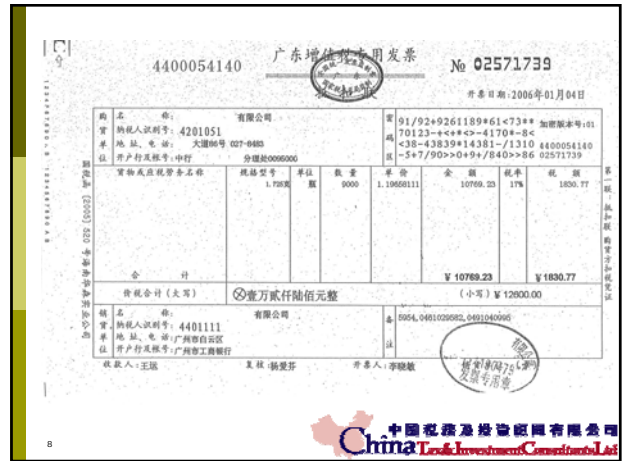
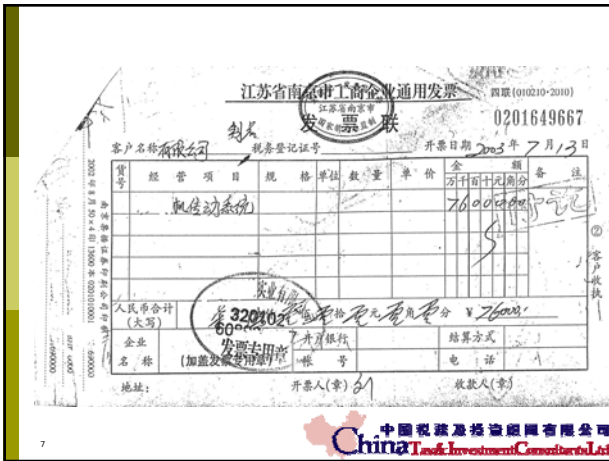
Illustration: small taxpayer

$$\begin{array}{l} \text{Sale} \quad 300 \times 6\% = 18 \\ \text{Purchase} \quad (\text{no input credit}) \end{array} \Rightarrow \text{VAT} = 300 \times 6\% = 18$$

Where

- 300 is VAT sales amount
- 18 is VAT payable

6



Scope of VAT / BT

Type	Scope of tax	Including
VAT	(i) Sale of goods; (ii) Importation of goods	Providing processing, repairing and replacement service (taxable services)
BT	(i) Supplying taxable services; (ii) Sale of intangible assets	Sale of immovable property

VAT Parties

Scope of tax	Payer	Collecting agent
Sale of goods	Buyer	Seller
Importation of goods	Consignee	Customs
Supply of taxable services	User	Provider

VAT rates (1)

17%	Other than goods listed immediately below
13%	Grain, vegetable oil, water, central heating, coal gas, LPG, books, newspaper, magazines, animal feeds, fertilizer, agrochemicals, agricultural machinery, agricultural film
0%	For export of goods
17%	For the supply of services relating to processing, repairing, and replacement

Tax rates (2)

6%	Small scale taxpayer classified as manufacturing enterprise
4%	Small scale taxpayer classified as commercial enterprise
7%	For the supply of transport services

Computation for Consumption Tax (CT)

- (1) Rate on value method
- ▣ Sales amount x tax rate
- (2) Amount on volume method
- ▣ Sales volume x amount per unit

13

CT rate and amount (Extracts)

	Taxable Items	Scope of levy	Tax Unit	Tax Rate/ Amount
I.	Tobacco			
1.	Grade A cigarettes	including imported cigarettes		45%

14

CT rate and amount (Extracts)

	Taxable Items	Scope of levy	Tax Unit	Tax Rate/ Amount
2.	Grade B cigarettes			40%
3.	Cigars			40%
4.	Cut tobacco			30%

15

CT rate and amount (Extracts)

	Taxable Items	Scope of levy	Tax Unit	Tax Rate/ Amount
III.	Cosmetics	including cosmetics sets		30%
IV.	Skin-care and hair-care products #			17%; reduced to 8% on 2001

Skin and hair care product is excluded from CT on 2006.4.1.

16

Tax Planning

Tax Planning for Logistics and Distribution

Point of collecting taxes

	VAT	Consumption Tax (CT)
Manufacturing	Yes	Yes
Contracted processing	Yes	Yes
Wholesaling	Yes	No
Retailing	Yes	No
Importation	Yes	Yes

18

Tax Planning for Logistics and Distribution

Question

	Price	VAT	CT
Ex-factory price	100	17	30
Wholesale price	200	34	
Retail price	500	85	

19



Tax Planning for Logistics and Distribution

Option 1

Factory selling goods directly to consumers

- VAT = $500 \times 17\% = 85$
- CT = $500 \times 30\% = 150$
- Selling price = 500; Taxes = $85 + 150 = 235$

20



Tax Planning for Logistics and Distribution

Option 2

Setting up a trading company to do the wholesale and distribution

- Factory VAT = $100 \times 17\% = 17$
- Wholesaler VAT = $(200 - 100) \times 17\% = 17$
- Retailer VAT = $(500 - 200) \times 17\% = 51$
- Total VAT = $17 + 17 + 51 = 85$
- CT = $100 \times 30\% = 30$
- Selling price = 500; Taxes = $85 + 30 = 115$

21



Tax Planning for Packaging

Option 1

Factory sells lipsticks for 200, lotion 200, skin care cream 150, and packing 50. To sell the whole set for 600, VAT and CT are imposed as follows:

- Output VAT = $(600 \times 17\%) = 102$ (ignoring input VAT)
- CT = $600 \times 30\% = 180$
- Total taxes = $102 + 180 = 282$

22



Tax Planning for Packaging

Option 2

Set up a trading company to buy from factory and do the packing

- Output VAT = $600 \times 17\% = 102$
- CT = $(200+200) \times 30\% = 120$
- Total taxes = $102 + 120 = 222$

* Skin care products are not subject to CT effective from 2006.4.1.

23



Tax Planning: VAT or business tax?

	VAT	VAT	BT
Sales	100	100	100
Purchase	- 20	- 80	
Value added	= 80	= 20	
Tax rate	17%	17%	5%
Tax payable	13.6	3.4	5

24



Other Tax Considerations

1. Importation (CIF price) vs. domestic production (Ex-factory price); tax base for importation is higher.
2. Bonded logistic parks and Free trade zones; Taxes are deferred. No duty, VAT and CT are payable until goods are imported from BLP/FTZ into the rest of China.

Thank You.

E-mail: enquiry@china-tax.net

Website: www.china-tax.net