

## PRC VAT Regulations

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## 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.

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## 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

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

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

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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; # Certification of supplier invoices at tax bureau.

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## 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

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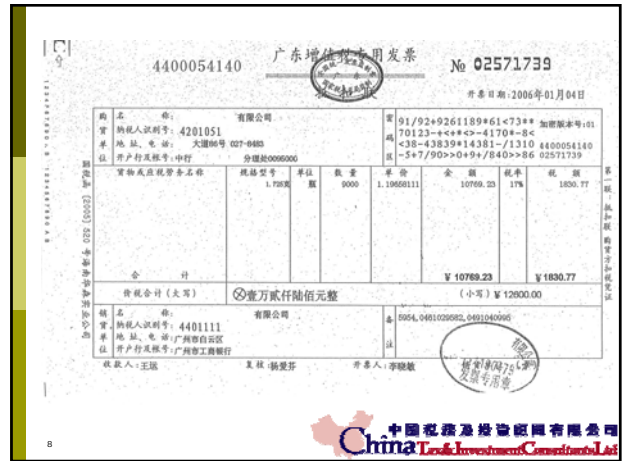
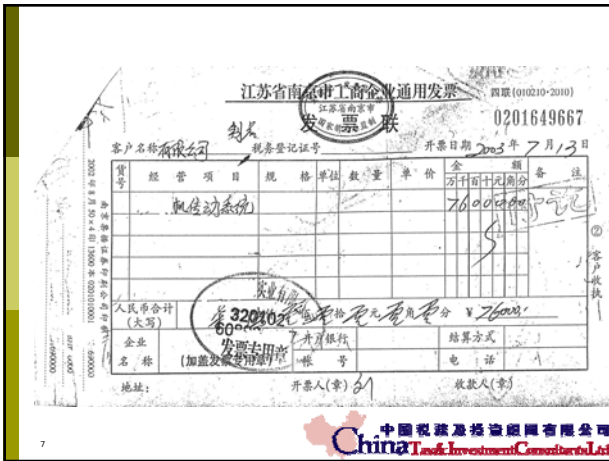
## Illustration: small taxpayer

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

Where

- 300 is VAT sales amount
- 18 is VAT payable

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### 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

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## 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%

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## 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%

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## 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.

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## Tax Planning

中國稅務及投資顧問有限公司  
China Tax & Investment Consultants Ltd.

## 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

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## Tax Planning for Logistics and Distribution

### Question

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

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## 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 =  $85 + 150 = 235$

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## 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 =  $85 + 30 = 115$

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## 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 =  $102 + 180 = 282$

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## 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.

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## 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

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## 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.

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