

## VAT in PRC

Alfred K. K. Chan

16-17 July 2012

1

All rights reserved

## Value Added Tax Part One

### VAT regulations and rules

- PRC VAT Tentative Regulations, State Council
- Detailed Rules on PRC VAT Tentative Regulations, MOF
- Rules, SAT singly or jointly with MOF/ Other Ministries

3

All rights reserved

### Scope of VAT

1. Sale of goods
2. Importation of goods
3. Provision of services relating to processing, repairing, and replacement

within the Chinese territories

Exceptions:

- Export Processing Zones
- Free Trade Zones
- Bonded logistic centers and parks

4

All rights reserved

### Comparing scope of VAT and Business Tax (BT)

- Sale of goods: VAT, except for the sale of immovable properties
- Provision of taxable services: BT, except for that relating to processing, repairing, and replacement

5

All rights reserved

### Scope of Business Tax (BT)

Taxable services includes:

- Provision of taxable services, listed as per appendix to the PRC Business Tax Tentative Regulations
- Transfer of intangible asset
- Transfer of immovable properties

6

All rights reserved

### Scope of VAT / BT

Type	Scope of tax	Including
VAT	Sale of goods; importation of goods	Providing processing, repairing and replacement service
BT	Supplying taxable services; sale of intangible assets	Sale of immovable property

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

### VAT Parties

Scope of tax	Who bears tax ?	Who is collecting agent ?
Sale of goods	Buyer	Seller
Importation of goods	Consignee	Customs
Supply of taxable service	User	Provider

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

### Sale of goods (1)

Definition of goods?

Goods include the following:

Movable objects, gas, central heating, water, and electricity

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

### Sales of goods (2)

What does "sales" mean?

➤ Transfer the ownership of goods for a consideration, which includes:

1. Receipt of money
2. Goods
3. Other economic benefits

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

### Sales of goods (3)

Economic benefit?

➤ Exchange of goods for a consideration, which includes:

1. Discharging one's liability,
2. Shares in a company

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

### Deemed sales (1)

Change in possession:

1. Delivery of goods from the principle to the agent for on-sale to customers
2. Sales of goods by the agent on behalf of the principle
3. Transfer of goods from the head office to the branch located at other cities

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

## Deemed sales (2)

Other circumstances

1. Turning inventory into non-taxable items (i.e. goods used in construction of own building)
2. Using non-cash asset in external investment
3. Distribution of goods to investors
4. Inventory (goods) used for staff benefits

13

All rights reserved ChinaTax&InvestmentConsultantsLtd 中國稅務及投資顧問有限公司

## 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

14

All rights reserved ChinaTax&InvestmentConsultantsLtd 中國稅務及投資顧問有限公司

## How is the amount of VAT payable computed? (1)

For sale of goods:

VAT payable

= VAT output amount – VAT input amount

15

All rights reserved ChinaTax&InvestmentConsultantsLtd 中國稅務及投資顧問有限公司

## How is the VAT payable amount computed? (2)

For the sale of imported goods:

VAT payable = Output VAT – Input VAT

VAT input = (Dutiable value + customs duty + (consumption tax if any)) \* tax rate

16

All rights reserved ChinaTax&InvestmentConsultantsLtd 中國稅務及投資顧問有限公司

## Illustration

Sale 300 X 17% = 51  
Purchase 100 X 17% = 17

200 X 17% = 34

Where : 51 is output VAT

17 is input VAT

34 is VAT payable amount

300 is the VAT sales amount

17

All rights reserved ChinaTax&InvestmentConsultantsLtd 中國稅務及投資顧問有限公司

## How is VAT tax base determined?

VAT output amount

= VAT sales amount \* tax rate

VAT sale amount = tax base

18

All rights reserved ChinaTax&InvestmentConsultantsLtd 中國稅務及投資顧問有限公司

## Special rules on tax base (1)

When happen?

1. Price is exceptionally low without justification
2. The transaction is a deemed sale

19

All rights reserved



## Special rules on tax base (2)

In the following order:

1. The average selling price for the same type of goods in the month
2. The average selling price for the same type of goods in recent period
3. Composite selling price = cost \* (1 + 10% deemed profit rate)

20

All rights reserved



## How is VAT sales amount determined?

VAT sales amount = (1)+(2)+(3)-(4)

(1) sales revenue recognized under accounting rules

- + (2) deemed sales amount
- + (3) charges additional to selling price ( \* )
- (4) VAT exempt sales

21

All rights reserved



## What are additional charges ?

including late payment interest, installation fee, testing fee, packing fee, loading and unloading charges, training and consulting fee, etc

22

All rights reserved



## Extended scope of VAT - Summary

Basic provisions	import; supply of goods & taxable services
Deemed sales	change in possession; or change in use
Mixed sales	same transaction involving supply of goods and non-taxable service; paying one type of taxes

23

All rights reserved

## 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.
- Sideline sale: Different transaction with different buyers; pay 2 or more types of taxes.

24

All rights reserved



## Taxpayer and VAT invoice

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

### Comparison: General taxpayer and Small-scale taxpayer (1)

Annual sales revenue of general taxpayer

1. >0.8 million for commercial enterprise (FICE), or >0.5 million for production enterprise
2. Satisfy the requirement for VAT record keeping

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

### Comparison: General taxpayer and Small-scale taxpayer (2)

3. Can claim input credit
4. Can apply for VAT export rebates
5. Can apply for VAT incentives

➤ General taxpayer can get registered as I/E trader

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

### Taxpayer and tax invoices (1)

Issuer's Tax Status

	General VAT payer	Small scale VAT payer
Issue VAT special invoice?	Yes	No, it must be done at tax office and pay 3% VAT
Issue ordinary invoice?	Yes	Yes

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

### Taxpayer and tax invoices (2)

Transactions for which ordinary tax invoices should be used

1. Small taxpayer supplies goods or taxable services
2. Sales of VAT-exempt goods
3. Supply of goods or taxable services to consumers
4. Supply of specific goods (vehicles, etc)

See SAT doc. (2006) No. 156.

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

### Taxpayer and tax invoices (3)

Tax invoices vs. VAT liability

- Even if general taxpayer uses ordinary invoices in retail chain => it is still liable to output VAT
- The 2 issues are independent with each other
- Taxpayer shall compute output VAT as follows:  
 Sale amount = 100  
 Output VAT = 100 / 117 \* 17  
 Output VAT = 14.53

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

## Input credit

### Input credits (1)

The following input VAT are not creditable against output VAT:

1. VAT special invoices bearing issue date over 180 days
2. VAT invoices not yet get certified by tax authority

### Input credits (2)

The following input VAT are not creditable against output VAT:

3. Purchased goods used for personal use / for employee welfare
4. Amount represented by excess of VAT rate over export refund rate

### Input credit : special deduction rules for VAT general taxpayer

1. Purchase of VAT-exempt agricultural produce (10%)
2. Delivery charge with Invoice issued by company in transportation business (7%)
3. Purchase from company in the business of collecting 2<sup>nd</sup> hand articles and waste items (10%)

Note : Ordinary tax invoices can not be used to claim input credit in general

### Determination of input VAT amount

$$\text{Input VAT} = (1) + (2) - (3)$$

- = (1) VAT on purchase as ascertained under accounting rule  
 + (2) Special deductions (notional credit, transport charges) against output VAT  
 - (3) Input VAT not creditable against output VAT

## VAT liability and ordinary invoices

### Use of ordinary tax invoices (1)

1. General taxpayer selling goods to final consumer
2. Sale of VAT-exempt goods
3. Small-scale taxpayer supplying taxable services and goods
4. The sale of certain specified goods (i.e. food, cosmetics, vehicles)

37

### Use of ordinary tax invoice (2)

➤ When the selling prices are quoted including VAT, the quotes is converted into sales as below:

$$\text{Selling price} = \text{quote amount} / (1 + \text{tax rate})$$

$$\text{Selling price} = 100 / (1 + 17\%) = 85.47$$

$$\text{VAT} = 100 - 85.47 = 14.53$$

$$\text{(or VAT} = 85.47 * 17\% = 14.53 \text{)}$$

38

### Where the VAT is collected ?

1. At each stage of the VAT chain in domestic market
2. At the point of importation

Links and stages in VAT chain:

- Manufacture processing
- Wholesale distribution
- Retail distribution

39

### Where the VAT is collected ?

	VAT	Consumption Tax
Manufacturing	Yes	Yes
Processing	Yes	Yes
Wholesaling	Yes	No
Retailing	Yes	No
Importation	Yes	Yes

40

### VAT rates

### VAT rates (2)

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

42

## VAT rates (2)

11%	This rate applies to the supply of transportation service in Shanghai effective from 2012.1.1.
6%	This rate applies to certain services in Shanghai effective from 2012.1.1.

43

All rights reserved

## Levy rates

- 3% Small scale taxpayer
- 2% General taxpayer selling used articles

\* Taxpayer paying VAT at levy rates cannot claim input credit

44

All rights reserved

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

## Tax rates (3)

A comparison

Tax exemption

- (1) Seller bears input VAT
- (2) Tax burden >0

Zero-rated tax

- (1) Seller (exporter) does not bear input VAT
- (2) Tax burden = 0

45

All rights reserved

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

## VAT obligation - when it arises?

- Cash sales : receipt of sale money
- Credit sales : Pmt date by agreement
- Advance deposit : upon delivery
- Provision of taxable services : receipt of money
- Deemed sale: delivery of goods

46

All rights reserved

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

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

End

alfred@china-tax.net

Tel : 852-2374-0067

www.china-tax.net