

VAT regulations and rules ▶ PRC VAT Tentative Regulations, State Council ▶ Detailed Rules on PRC VAT Tentative

➤ Rules, SAT singly or jointly with MOF/ Other Ministries

Regulations, MOF

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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

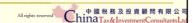
Exceptions:

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



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

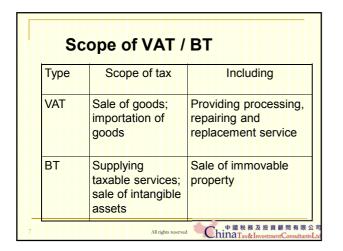


Scope of Business Tax (BT)

Taxable services includes:

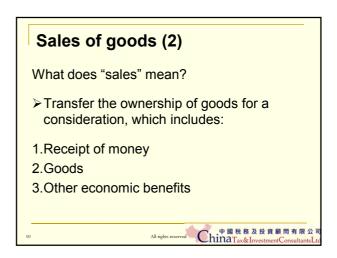
- ➤ Provision of taxable services, listed as per appendix to the PRC Business Tax Tentative Regulations
- ➤ Transfer of intangible asset
- > Transfer of immovable properties





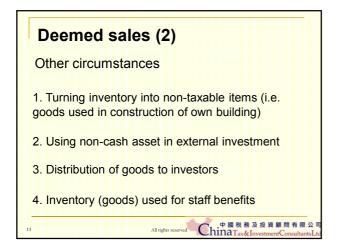
VAT Parties		
Scope of tax	Who bears tax ?	Who is collecting agent ?
Sale of goods	Buyer	Seller
Importation of goods	Consignee	Customs
Supply of taxable service	User	Provider

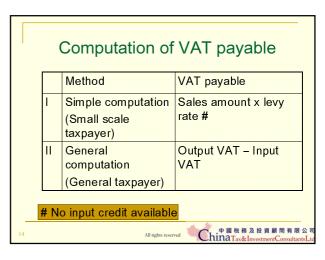
Sale of goods (1) Definition of goods? Goods include the following: Movable objects, gas, central heating, water, and electricity

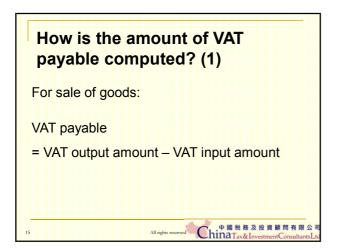


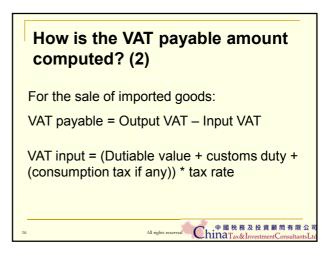
Sales of goods (3) Economic benefit? Exchange of goods for a consideration, which includes: 1.Discharging one's liability, 2.Shares in a company

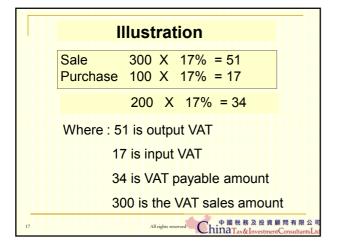
Deemed sales (1) Change in possession: 1.Delivery of goods from the principle to the agent for on-sale to customers 2.Sales of goods by the agent on behalf of the principle 3.Transfer of goods from the head office to the branch located at other cities

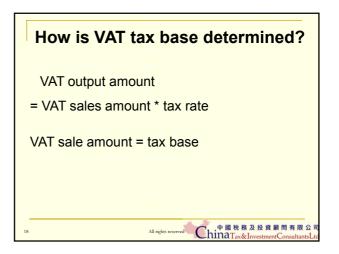








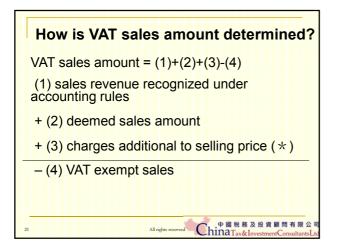


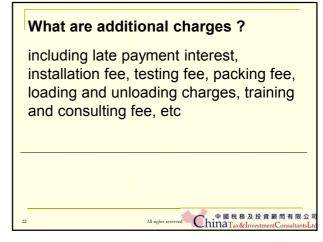


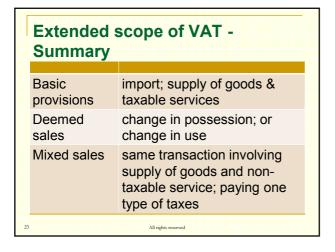
Special rules on tax base (1) When happen? 1.Price is exceptionally low without justification 2.The transaction is a deemed sale

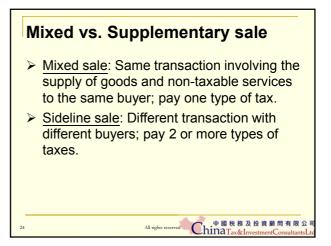
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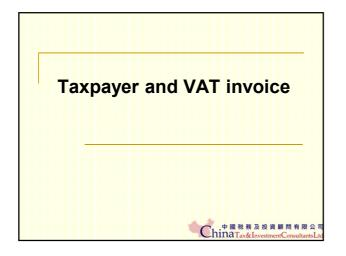
Special rules on tax base (2) In the following order: 1. The average selling price for the same type of goods in the month 2. The average selling price for the same type of goods in recent period 3. Composite selling price = cost * (1 + 10% deemed profit rate)





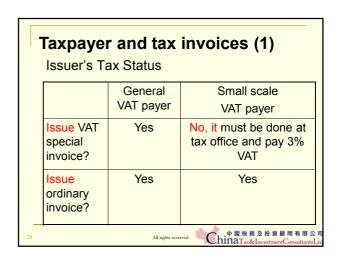






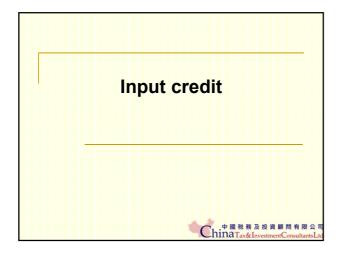
Comparison: General taxpayer and Small-scale taxpayer (1) Annual sales revenue of general taxpayer 1.>0.8 million for commercial enterprise (FICE), or >0.5 million for production enterprise 2. Satisfy the requirement for VAT record keeping

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 ChinaTax& InvestmentConsultantsU



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.

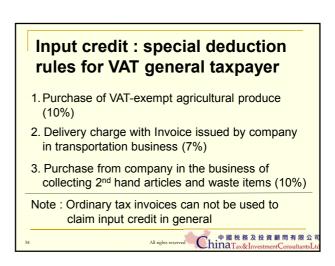
Taxpayer and tax invoices (3) Tax invoices vs. VAT liability > Even if general taxpayer uses ordinary invoices in retail chain = > it is still liable to output VAT > The 2 issues are independent with each other > Taxpayer shall compute output VAT as follows: Sale amount = 100 Output VAT = 100 / 117 * 17 Output VAT = 14.53

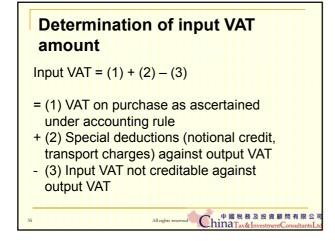


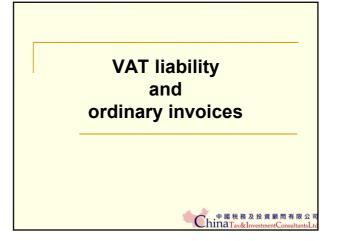
Input credits (1) The following input VAT are not creditable against output VAT: 1. VAT special invoices bearing issue date over 180 days 2. VAT invoices not yet get certified by tax authority

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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







Use of ordinary tax invoices (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)



Use of ordinary tax invoice (2) > When the selling prices are quoted including VAT, the quotes is converted into sales as below: Selling price = quote amount / (1+ tax rate) Selling price = 100 / (1+17%) = 85.47 VAT = 100 - 85.47 = 14.53 (or VAT = 85.47 *17% = 14.53)

Where the VAT is collected?

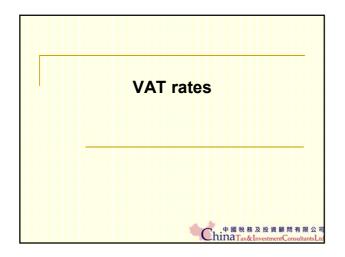
- 1. At each stage of the VAT chain in domestic market
- 2. At the point of importation

Links and stages in VAT chain:

- > Manufacture processing
- > Wholesale distribution
- ➤ Retail distribution



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



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	
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