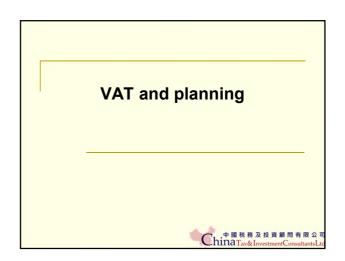


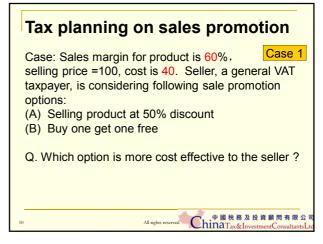
Factory A sells some vehicle tyres to Co B for 5,000. Rubber costs 4,000 in domestic market. Both selling price and cost are exclusive of VAT. Assuming that VAT rate is 17% and consumption tax (CT) rate is 8%.

See the accounting treatment below.

AR (including VAT 850) 5,850 Dr Dr COS (CT) 400 5.000 Cr Sales 850 Cr VAT payable CT Payable 400 CT = 5,000*8% = 400 (borne by seller) VAT = (5,000)*17% = 850 (borne by buyer)







Tax planning (A) 50% price disc't

VAT

> VAT payable = 50 / (1 + 17%) x 17% - 40 / (1 + 17%) x 17% = 1.45

Corporate income tax (CIT)

> Profit = 50 / (1 + 17%) - 40 / (1 + 17%) = 8.55

> CIT = 8.55 x 25% = 2.14

> After-tax profit = 8.55 - 2.14 = 6.41

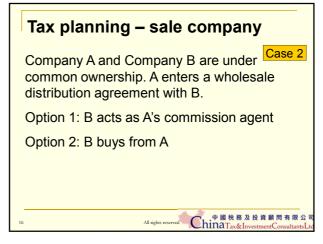
Tax planning (B) buy one get one free (quantity discount)

> VAT payable for 100 sales
> = 200 / (1 + 17%) x 17% - 80 / (1 + 17%) x 17%
= 17.44
> Deemed sale for gift: 100
> Total VAT payable = 17.44

Tax planning (B) gift valued at 30 > Profit > = 100 / (1 + 17%) - (40 x 2) / (1 + 17%) = 17.09 > CIT > = (100 / (1 + 17%) - 80 / (1 + 17%))x 25% > = 17.09 x 25% = 4.27 > Profit after tax > = 17.09 - 4.27 = 12.82

	Option A	Option B	Option B
	(Disc't)	(Gift)	Adjust (1/2)
VAT	1.45	17.44	8.42
CIT	2.14	4.27	2.135
Profit B/4 tax	8.55	17.09	8.54
Profit after	6.41	12.82	6.41





Tax planning – sale company

Option 1: B acts as commission agent.
Product selling price = 1,000. For every item sold, B receives 200 commission.

VAT: A 1000*17%=170, B (800-800)*17%=0.
BT: B has to pay 10 BT. (10=200*5%)
Total tax = 170+10=180

