

Invoice and tax liabilities in China

Q: I work with a factory and I go out and purchase materials and parts. Some suppliers are really good and supply me with an invoice (fa piao). However some of the smaller parts suppliers do not supply me with any fa piao and I push them to give it to me even paying the tax but they do not. How do you get around this so that you can legally report items you purchase even if fa piaos are not given?

A:

[1] Fa Piaos in China serve several functions including the recognition of sales, acknowledgement of receipt, basis for computing tax, and supporting voucher for accounting purposes. Tax invoices will have direct impact on the Company's VAT liability and income tax liability. If you cannot get the fapiao for purchases, you cannot claim deduction for income tax purposes, and that will increase your pre-tax profits. For example, if the corporate income tax rate is 25% and the purchase is RMB100, then you will lose money unless the reduction in purchase price for no tax invoice is as low as 25%. That is, the purchase priced at RMB100 with a tax invoice is now priced at RMB75 (or below) without a tax invoice.

[2] Alternatively, you can try to make the following arrangements with the supplier. Each time you make a purchase in small lots, you keep the receipts from the supplier. At the end of the month, the supplier must give you the tax invoice to cover all the purchases in the month. That will save the transaction and administrative costs of issuing tax invoices for purchase in small amounts. The supplier can pay the tax at the tax bureau and request the tax bureau to issue the tax invoices on their behalf. Then you can get the tax invoice from the supplier for accounting and tax purposes. If the supplier refuses the proposed arrangement, then you have to find other suppliers.