

## VAT rules on the transfer of goods between cities

Q: A company is registered in Beijing. If the company dispatches goods to Shanghai branch, there may be a requirement for the company to pay any extra VAT. Some don't think there should be any additional VAT to be paid for such an operation, since the seller/owner of the good is still the same one. Actually the answer is uncertain.

A: VAT rules are very complicated in China. If the transfer of goods results in a change of ownership, the seller is under an obligation to collect VAT from buyer and liable to VAT.

If there is a change of possession (no change in ownership), the transfer may also be liable to VAT depending whether the buyer finally enters into sales transaction with the branch or the head office.

If the goods are dispatched from head office to the branch located in other cities and the branch re-sells the goods to the buyer, then HO is liable to pay VAT. It is because the branch will sign contract, issue VAT special invoices, and receive payment from the buyer. The branch is treated as if it was a taxpayer under the VAT deemed sales rules.

However, where the goods are dispatched to the branch in other cities. The head office signs the contract, issues the VAT special invoice, and collect check payment from the buyer, then there is no VAT liability at the time where the goods are dispatched to the branch. Where the goods are dispatched to a warehouse located in other cities, there is no VAT liability either.

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