

VAT tips - Computation of VAT payable amount

There are two ways of computing the amount of VAT payable: the simple computation method and the general computation method as listed below.

	Method	Amount of VAT payable
I	Simple computation method	Sales amount x levy rate <No input credit>
II	General computation method	Output VAT – input VAT <Subject to the mandatory certification of tax invoice for purchase>
III	General Computation method	Sales amount x standard rate <No input credit>

There is no input credit under the simple computation method. Taxpayers who are classified as small-scale taxpayers shall use the simple computation method to pay the VAT at the levy rate at 3% (6% and 4% for production and non-production business before 2009.1.1.). The general VAT taxpayer pays the VAT at the standard rate of 17%, and it is entitled to offset the input VAT against the output VAT. The VAT payable will be as per computation shown in row II from the above table. That is, the VAT liability = Output VAT – Input VAT. The general taxpayer may also adopt the simple computation method to compute the VAT payable for the supply of certain specified goods if they find it to be advantageous to do so. (Please see note 1 below). It is noted that the PRC VAT rules provides for a variation on the general computation method. Where the taxpayer who can satisfy the conditions for a general taxpayer has not submitted the application for getting recognized as a general taxpayer, the VAT liability is ascertained as per computation in row III of the above table. That is, the amount of VAT payable is the output VAT times 17% without the deduction of the input credit. That will happen when the taxpayer who is engaged in production business has achieved an annual sale amount of RMB500,000 and above (the annual sale amount is RMB800,000 or above for the taxpayer who is engaged in non-production business), but fails to apply to get the status as a general taxpayer.

Note (1): The Ministry of Finance and State Administration of Taxation, document Cai Shui Zi 004 (94), 1994. The type of prescribed goods taxable at levy rate includes: electricity supplied by small thermal electricity generating or hydro-electricity generating plants at or below the county level; the sands, soil, and quarry for construction use and manufacture of construction materials; the supply of bricks, soil and lime that are made of self-excavated sand, soil and quarry, building materials that are made of coal ash and boiler slag; biological products that are made of micro-organism, animal toxins, human or animal bloods; and the supply of water.

Types of VAT taxpayers

There are two types of VAT taxpayers: general (ordinary) taxpayer and small-scale taxpayer. General or ordinary taxpayer differs from the small taxpayer in several aspects. First, the business scale for these two types of taxpayers is different. To get the status of a general taxpayer, the taxpayer who is engaged in production business should achieve the annual sale amount RMB500,000 or above (RMB800,000 or above for taxpayer who is engaged in non-production business). Second, the rights and obligations of the general taxpayer are different from that for small-scale taxpayer. The general taxpayer can claim input credit on goods for domestic sales while the small-scale taxpayer cannot. Small-scale taxpayers are taxed at the levy rate under the simple computation method. Third, the general taxpayer can claim refund for the VAT paid on the goods either bought for purpose of export, or used in the manufacture of export goods. The small taxpayer does not have the right to claim export refunds.

Example:

The following information of a taxpayer for current month is available: The amount of local sales is 2 million; there is no export sale, and local purchase is 1.5 million. Computation of VAT payable for domestic sales is given below:

Case 1 – with input credit	Case 2 – without input credit
= Output VAT – input VAT	= Output VAT x 17%
= 2 m x 17% - 1.5m x 17%	= 2 m x 17%
= 340,000 – 255,000	= 340,000
= 85,000	

In the above example, the VAT payable is 85,000. The taxpayer is eligible for input credit if it has acquired the status as the general taxpayer. If it has not, the taxpayer cannot claim input credit and has to pay VAT of 340,000. This will happen under any of the following situations: (i) where the taxpayer has achieved the threshold annual sale amount of RMB 500,000 (RMB800,000 for non-production business) but it fails to apply to the tax bureau in-charge for getting recognized as VAT general taxpayer; (ii) where the taxpayer has achieved the threshold sale amount and has applied to get recognized as the general taxpayer, but it has failed to satisfied the requirement for the general taxpayer status such as the failure to maintain a VAT accounting ledger, the lack of information showing the balance and the movements of the inventory, or the absence of a safe for purpose of keeping the tax invoices; (iii) where the taxpayer has obtained the status as the general taxpayer and is entitled to claim input credit, the taxpayer has failed to have the supplier's VAT special invoice certified at the tax bureau within 90 days after it has been issued.