

Administration of VAT Special Invoice

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6th September 2006

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Legal Authorities

1. PRC Administrative Measures for the Administration of Tax Invoices, and its Detailed Rules, issued by the MOF and the SAT respectively
2. PRC Administrative Rules for the Use of VAT Special Invoices, issued by the SAT

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Issuer's Tax Status

	General VAT payer	Small scale VAT payer
VAT special invoice	Issue invoice on its own? Yes	Cannot issue invoice (Must be done at tax office)
Ordinary invoice	Issue invoice on its own? Yes	Issue invoice on its own? Yes

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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)

Article 21, VAT Tentative Reg. & SAT doc. (1995) No. 088.

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Sales sum, VAT, and invoiced value

Invoiced value including VAT = 100
 $VAT = 100 / 1.17 \times 17\% = 14.53$
 $Sales\ sum = 100 / 1.17 \times 100\% = 85.47$

In the case of small scale taxpayer
 $VAT = 100 / 1.06 \times 6\% = 5.67$ (production enterprise)
 $VAT = 100 / 1.04 \times 4\% = 3.85$ (Non-production)

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Qualification for being recognized as VAT general taxpayer

1. Annual sales
 - ◆ Production type > 1 Million
 - ◆ Non-production > 1.8 Million
2. (i) taxpayer submit application,
 (ii) subject to conditions being satisfied, being recognized by tax bureau

Note: General taxpayer can claim input credit

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Comparing general VAT payer and small scale taxpayer (1)

General VAT payer

- Sales 1,000; (VAT 17% = 170)
- Purchase 900; (VAT 17% = 153)
- VAT = (1,000-900) x 17% = 170 - 153=17

Small-scale taxpayer

- VAT = 1,170/1.06 x 6% = 66.23 (Production)
- VAT = 1,170/1.04 x 4% = 45 (Non-production)

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Comparing general VAT payer and small scale taxpayer (2)

General VAT payer

- Sales 1,000; (VAT 17% = 170)
- Purchase 100; (VAT 17% = 17)
- VAT = (1,000-100) x 17% = 170 - 17=153

Small-scale taxpayer

- VAT = 1,170/1.06 x 6% = 66.23 (Production)
- VAT = 1,170/1.04 x 4% = 45 (Non-production)

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中國稅務及投資顧問有限公司
China Tax & Investment Consultants Ltd.

机动车销售统一发票 No 06473

开票日期: 2003年7月3日

开票人: 周

收款人: 周

开票单位: 江苏天冠汽车服务有限公司

纳税人识别号: 32000271490984

开户银行: 建行城东支行

电话: 5406852

地址: 淮海街186*05-06

发票金额: 27800.00

税额: 4695.67

价税合计: 32495.67

备注: 一车一票。

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China Tax & Investment Consultants Ltd.

江西 实业有限公司商业承兑汇票(万元版)

票号: 136010522315

日期: 2005年7月13日

客户: 江西

收款单位: 江西

金额: 10000.00

利率: 4

到期日期: 2005年8月13日

承兑人: 江西

开户行: 江西

电话: 10573273000

地址: 江西

备注: 有变要, 款前于发。

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中國稅務及投資顧問有限公司
China Tax & Investment Consultants Ltd.

江苏省南京市工业企业通用发票 四联(010210-2010)

开票日期: 2003年7月13日

开票人: 周

收款人: 周

开票单位: 江苏天冠汽车服务有限公司

纳税人识别号: 32000271490984

开户银行: 建行城东支行

电话: 5406852

地址: 淮海街186*05-06

经营项目: 机动车

规格型号: 186*05-06

数量: 1

单价: 27800.00

金额: 27800.00

税额: 4695.67

价税合计: 32495.67

备注: 一车一票。

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中國稅務及投資顧問有限公司
China Tax & Investment Consultants Ltd.

广东增值税专用发票 No 00215477

开票日期: 2002年12月10日

开票人: 周

收款人: 周

开票单位: 广东

纳税人识别号: 4406222

开户银行: 建行城东支行

电话: 5406852

地址: 淮海街186*05-06

经营项目: 机动车

规格型号: 186*05-06

数量: 1

单价: 27800.00

金额: 27800.00

税额: 4695.67

价税合计: 32495.67

备注: 一车一票。

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中國稅務及投資顧問有限公司
China Tax & Investment Consultants Ltd.

4400054140 广东增值税专用发票 No 02571739 开票日期: 2006年01月04日

名称: 有限公司	纳税人识别号: 4201051	开户行及帐号: 中行 分理处0086000	191/92+9261189*61<73** 加密码: 0170123-+<+*+<-4170+-8<
地址、电话: 大洲86号 027-8483	开户行及帐号: 中行	纳税人识别号: 4401111	38-43839*14381-11310 4400054140
货物或应税劳务名称	规格型号	单位	数量
	1.75X	瓶	9000
			1.1959111
			10769.23
			17%
			1830.77
合计			¥ 10769.23
			¥ 1830.77
价税合计(大写)	壹万贰仟陆佰元整		
	(小写) ¥ 12600.00		
名称: 有限公司	纳税人识别号: 4401111	开户行及帐号: 广州白云支行	纳税人识别号: 4401111
地址、电话: 广州白云支行	开户行及帐号: 广州白云支行	纳税人识别号: 4401111	纳税人识别号: 4401111
收款人: 王运	复核: 杨爱芬	开票人: 李晓敏	

VAT Liability vs. Tax Invoice

VAT liability is independent of the type of tax invoices used.

Scope of VAT / BT

Type	Scope of tax	Including
VAT	Sale of goods; importation of goods	Providing processing, repairing and replacement service
BT	Supplying taxable services; sale of intangible assets	Sale of immovable property

- ## Function of tax invoices
1. Sales recognition
 2. Tax computation
 3. Receipt

VAT Parties

Scope of tax	Payer	Collecting agent
Sale of goods	Buyer	Seller
Importation of goods	Consignee	Customs
Supply of taxable goods	User	Provider

- ## Scope of Administration
1. Printing
 2. Purchase
 3. Use
 4. Issue
 5. Custody

Unlawful acts of handling tax invoices

1. Purchasing tax invoices from other party than the tax bureau
2. Sales or transfer of tax invoices for a profit
3. Providing tax invoices for, or borrow tax invoices from, other parties
4. Using receipts in lieu of tax invoices

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Unlawful acts for issuing invoices

1. Failure to issue invoices for taxable transaction
2. Borrowing, transferring or issues invoices on behalf of third party
3. Issuing invoices for fictitious transactions

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Unlawful acts for issuing invoices

4. Goods not matched with details in invoices issued
5. Invoice issued for transactions falling outside VAT scope

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Blank tax invoices – Internal control

1. Designated person keeping tax invoices
2. Using safe properly
3. Division of duty between custody and issue of invoices
4. Division of duty between keeping stamp and using stamp for invoices

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Rules for dealing with lost or stolen tax invoice

1. Reporting losses to tax bureau immediately
2. Filing application of lost invoices, "list of lost/stolen invoices", Application for public notice of" Declaration of lost invoices", and following information:
 - (a) Evidence substantiating the losses
 - (b) Text for public notice of void invoices
 - (c) Invoice purchase book
 - (d) Identity card information of handling staff

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Time for Issuing Tax Invoice

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Time for Issuing Tax Invoice

- Sales on cash-and-carry terms: day of receiving payment
- Credit sales: payment day as provided in agreement
- Consigned sales: day of receiving statement of consigned sales
- Advanced deposit: day upon the delivery of goods
- Distributing goods to owner or transfer of goods as capital contribution (deemed sale): day upon the delivery of goods

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Revenue Measurement 1A

- Wholesaler sold goods to retailer for RMB1,000,000, with a trade discount of 20%
- VAT Special Invoices: RMB 1 million
- Credit note issued: RMB200,000
- What is the accounting and tax treatment?

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Revenue Measurement 1B

Under Accounting Rules

- Sales recognized: RMB 0.8 million

Under VAT and IT rules

- Sales amount: RMB 1 million
- The trade discount must be printed in the same VAT special invoices in order to get the deduction from gross revenue. < SAT document Guo Shui Fa (1997) No. 472 >

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Revenue Measurement (2A)

- After receipt of goods, the retailer discovers that some goods have quality problems. Wholesaler agrees to give a 10% discount on gross amount of RMB 1 million.
- Accordingly, it issues a second credit note for 0.1 million to the retailer.
- The account receivable from retailer is further reduced from 0.8 million to 0.7 million.
- What is the tax implication?

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Revenue Measurement (2B)

- The use of credit note is NOT tax efficient]
- What alternatives do we have?

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Revenue Measurement (2C)

- Since the quality problem is discovered after delivery, wholesaler cannot state the sales discount in the original VAT special invoices
- Two possible treatments, depending whether:
 - (i) retailer can return tax invoices; or
 - (ii) retailer cannot return tax invoices

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Revenue Measurement (2D)

- With returned tax invoices, wholesaler can issue revised tax invoices
- If retailer cannot return tax invoices, wholesaler needs to obtain from retailer a copy of "Certification of Purchase Discount or Sales Concession" issued by the tax bureau in charge of the city where retailer is located before wholesaler can issue credit note and reduce the sales amount for VAT and IT purposes. < SAT Document Guo Shui Fa (1993) No. 150; >

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Quality Problem and VAT

- 1. Goods not returned (discount)
- 2.1 Goods returned in part (discount)
- 2.2 Goods returned and replaced in whole or in part (no discount)

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Revenue Measurement (3A)

- Wholesaler has separate agreement with retailer for performance target
- Wholesaler will give retailer a bonus of RMB50,000 if annual sales amount exceeds RMB20 million
- Retailer achieves the target
- Wholesaler pays the bonus and gets an official receipt from retailer

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Revenue Measurement (3B)

- Does the transaction comply with the legal rules?
- Any legal and tax efficient way of doing it?

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Revenue Measurement (3C)

- The use of official receipt is in breach of PRC accounting and tax rules
- Option (1): The wholesaler should have issued a credit note; or
- Option (2): It should have obtained from the retailer a copy of the Certification of Purchase Return or Sales Concession <购货退出或销售折让证明书>
- Option (2) is more tax efficient than (1)

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Thank you

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