

Newsletter No. 220 (EN)

**Overview of the
value-added tax (VAT) system in China**

April 2019

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I. Introduction

Value-added tax (VAT) issues should not be underestimated when doing business in China as the VAT is not always a “cash neutral pass through” on financial statements of a company. It is far more complex, may be effectively cost-incurring and therefore potentially riskier than one might expect at first glance.

China’s VAT law changed a lot in the past two years. The Chinese government replaced the Business Tax (BT) with the VAT system in 2016. Both regulations co-existed alongside each other which led to certain complexity and confusion about the specific application of the different tax rates. The reform simplified China’s tax system by abolishing the disproportionate taxation of services and unifying sales of goods, processing, repairs and replacement services, sales services, intangible properties, real estate and import of goods within China etc. under a general VAT regime.

In April 2018, China’s Ministry of Finance (MOF) and the State Administration of Taxation (SAT) issued new guidelines (Caishui [2018] No. 32 and 33 (Circular 32 and 33)) on the VAT rates as well as the changes to the threshold for small-scale VAT payers (turnover of max. RMB 5,000,000 = approx. EUR 640,000 per annum). The circulars were applicable from 1 May 2018 until 1 April 2019.

In March 2019, the China’s Premier Minister Li Keqiang published his Work Report delivered at the Two Sessions Meeting, where China’s policy agenda for 2019 is announced.

Starting April 1 2019, taxpayers that are subject to the 16 % VAT rate on their taxable sales or imported goods will enjoy a 13% VAT rate, while those who are subject to the 10% VAT rate will only need to pay 9%, according to a joint statement released by the Ministry of Finance, the State Taxation Administration and the General Administration of Customs (Announcement No. 39 of 2019).

II. VAT rates

All taxable activities that were subject to the 16%, respectively 10% VAT rates until 31 March 2019 will be eligible for a **lower rate (13%/9%) as of 1 April 2019. However, the VAT rate of 6% for certain services did not change.**

Different VAT rates are applied for different taxable activities:

The VAT rate of 13% applies for taxable activities such as:

- Sales **and import of general** goods
- Provision of processing, repair and replacement services
- Leasing services of tangible and moveable assets

The VAT rate of 9% applies for:

- Sales and import of **specified goods** such as agricultural products (including grains), tap water, heat, liquefied petroleum gas, natural gas, edible vegetable oil, air conditioning, hot water, coal gas, coal products for residential use, edible salt, agricultural machinery, feed, pesticide, agricultural film, fertilizer, methane, dimethyl ether, **books, newspapers, magazines, audio and visual products and electronic**

publications

- Postal and basic telecommunication services
- **Construction services**
- Leasing services of immovable property
- Sales of land use rights or immovable property

The VAT rate of 6% applies for:

- Value-added telecommunication services
- Financial services
- Modern services (such as research and development services, technology consulting services, information technology services, cultural and creative services, **logistics support services, tax and legal services**, etc.)
- **Lifestyle services**
- Sales of intangible assets other than land use rights

III. VAT refund mechanism

In general, the Chinese VAT system is comparable to many other VAT systems in the world. In particular, it generally mitigates the burden of VAT on transactions between businesses by applying an input **VAT credit mechanism**.

The VAT a company paid when buying or importing goods from a general taxpayer with a proper fapiao is called **input VAT**. The VAT a company adds when selling goods to buyers in China (with a proper invoice, so-called “*Fapiao*”) is VAT that the company receives and actually collects on behalf of the government, called the **output VAT**. This does not constitute the company’s revenue but must be transferred to the Chinese government.

In most cases, the input VAT can be offset against the output VAT. The surplus of the output VAT over the input VAT is the amount that a company is obliged to declare and transfer to the Revenue Department monthly. If the difference between the output and input VAT is negative, the company may apply for a refund from the Revenue Department.

This can be summarized as follows:

Output VAT – Input VAT < 0
 → VAT refund from the Revenue Department

Output VAT – Input VAT > 0
 → VAT payable to the Revenue Department

IV. Import of goods

The import of goods is subject to VAT which is payable to the Chinese Customs Department. This must not be confused with the obligation to pay **import duty** which represents a different tax at specific rates which is payable additionally. It increases the value base of the product, leading to a higher VAT.

For example:

Effective landing cost of a good in China = 100
Duty: 5%

The basis for the final VAT (13%) calculation is therefore 105:

$$13\% \times 105 = 13.65 \text{ VAT}$$

So basically, both VAT as well as duty have to be paid on importation of goods into China.

Foreign companies aiming to sell goods to consumers in China via online sales will need to appoint a customs agent or broker to handle the VAT payment on import.

VAT on importation has to be paid within 15 days of the issuance of a tax payment certificate by the Customs Department.

Import VAT is subject to the VAT credit/refund mechanism as part of input VAT.

V. Export of goods

1. General

When exporting goods and services, the

general rule is that no VAT will apply. There are two categories of exported goods and services: zero-rated (= 0% VAT) or generally VAT-exempt.

2. Export refunds

If a good is considered VAT zero-rated, it is technically subject to VAT, but the VAT rate is set at 0%. Therefore, any input VAT is, in general, refundable.

However, the actual finally accepted refund rate can be lower than the input VAT rate, therefore the actual refund accepted by the Revenue Department can be less than the VAT amount paid when buying goods in China or importing a good into China. In that way, the Chinese government actually intends to somehow restrict or limit the export of goods (such as agricultural products or rare earth) and to rather keep certain products within the Chinese economy. By not refunding the full amount of the paid input VAT, the government indirectly sanctions companies for exporting certain products. Therefore, companies will only get part of the VAT back, whereby the refund rates vary from product/service to product/service and, unfortunately, also sometimes actually from region to region.

The range is between 0% and 13%. A full list of approximately 11,000 (!) refund rates can be found on the State Administration for Taxation website (with easy google translation and HS numbers, respectively the Chinese Commodity Code Numbers).¹

For example, the refund rate is set to:

- 0% for most agricultural products and many kinds of papers (to rather keep them in China),
- 5% for screws and pins,
- 6% for meat of domestic cattle,
- 13% for cartons, cutting pads, styrofoam or silicone pads or for any kind of fabric.

If an exported good or service is considered exempt, the already paid input VAT cannot be refunded at all nor used to deduct the output VAT from domestically sold goods or services. The VAT paid can only be added to the cost of the exported goods. However, this category does not apply to many cases. Exempt goods include e.g. oral contraceptives, ancient books, imported equipment directly used in scientific research, experiments or teaching, imported materials for charitable foreign aid and assistance from foreign governments and international organizations or imported articles for persons with disabilities by supporting organizations.

3. Methods of implementing VAT refunds

In principle, there are two methods of calculating VAT refunds, depending on the business of the company.

For production companies that produce goods that are exported or sold in China, the input VAT on raw materials and machines, either imported or bought in China for the production process, can be fully offset (credited) against the output VAT on sales within China.

After this offset, any excess amount of input VAT is refundable, which means that the surplus amount will be re-paid by the Revenue Department to the local Chinese company.

For trading companies with no producing capabilities, the input VAT (VAT paid when buying goods in China) is directly refundable in cash, as export is not subject to output VAT (and therefore, there is nothing to offset/credit).

It is important to note that authorities require significant documentation in order to treat a supply of goods from China to another country as a zero-rated export for VAT purposes. It is necessary to submit a monthly Declaration form for Tax Refund of Production

¹ <http://hd.chinatax.gov.cn/fagui/action/InitChukou.do>.

Enterprises, together with supporting documentation. Different types of exporters have to comply with different specific requirements applicable to their business activity.

VI. Import and Export of Services

In general, VAT applies if either the supplier or the recipient is domiciled in China. If the service provider does not have an establishment in China, the recipient is required to pay the VAT on a withholding basis which means that the VAT is withheld from the price and accounted for by the recipient in China. The recipient is also entitled to an input VAT credit if it is registered as general VAT taxpayer.

In general, the export of services is exempt from VAT. This includes services such as:

- Licensed international transportation services by Chinese domestic carriers
- Production and publication of radio, film and television services for foreign entities abroad
- Offshore outsourcing services
- **Research and development services provided to foreign entities abroad**
- Software services and information systems services provided to foreign entities abroad etc.

Some services may qualify as zero-rated, for example:

- International transportation (foreign airlines or carriers)
- Broadcast of radio for overseas entities
- Technology advisor services
- Advertising services where the advertisement is released outside China
- Leasing of tangible movable property if the property is outside China
- Cultural, education and healthcare and travel services provided outside China
- **Technology advisory services**
- Postage services, delivery services and insurance for exported goods etc.

VII. General Taxpayer and Small-scale

VAT payer status

There are two classifications of taxpayers under the new VAT rules: the general taxpayers or small-scale taxpayers. A manufacturing or trading company whose sales reached the threshold of RMB 5,000,000 (approx. EUR 640,000) must register as a general VAT payer. Any business below this threshold pays 3% VAT on its outputs **without the right** to claim input VAT credits. However, these businesses still have the option to register as general VAT payer if they can demonstrate a profound accounting system and therefore provide detailed tax information as well as having a fixed place of business in China and be approved by the tax authorities.

NOTE: Under the old regulations applicable until April 2018, the threshold for small-scale VAT payers was set to RMB 500,000 for manufacturing enterprises, RMB 800,000 for trading enterprises and RMB 5,000,000 for taxpayers under the VAT reform program whose business would have been subject to Business Tax before the reform. As the general threshold is now at RMB 5,000,000, companies that had to register as general VAT payers under the old regulation because their sales reached the threshold of RMB 500,000/800,000 (but not RMB 5,000,000) can now convert back to small-scale VAT payer status. This might have consequences that companies have to be aware of when doing business with such “converted” small-scale VAT taxpayers. The purchaser will not be able to obtain a VAT invoice with a 13%/9%/6% VAT rate anymore but only 3% in the future. Therefore, they will have less creditable input VAT and higher purchase costs, especially if the purchase price remains the same.

VIII. Invoices for VAT (*Fapiao*)

1. General

Chinese authorities require businesses to issue *Fapiao*s (invoices/receipts) to oblige companies to pay tax in advance. *Fapiao*s are official invoices/receipts that validate the purchase of

goods and services in China. The Chinese government introduced them to track tax payments and deter tax evasion. *Fapiao*s are printed, distributed and administered by the Chinese Tax Bureau (State Administration of Tax) but provided by the seller of goods or services. They are registered with the relevant tax authority which audits the issuance in order to determine the appropriate amount of tax payable.

There are two types of *Fapiao*s: special VAT *Fapiao*s and general VAT *Fapiao*s.

2. Special VAT *Fapiao*s

Special VAT *Fapiao*s are issued by general taxpayers when goods or services are sold to other businesses or non-consumers. General taxpayers are thereby allowed to credit their input VAT. This does not apply to small-scale VAT payers.

Special VAT *Fapiao*s contain detailed information including the seller's

- tax code,
- address,
- telephone number and
- bank account information.

*Fapiao*s have to show the detailed components of taxable and non-taxable activities and the exact tax rate and amount. They also need to be stamped with the issuer's special *Fapiao* chop.

When issuing a special VAT *Fapiao*, the following three basic copies have to be provided:

- A copy for accounting purposes of the issuer
- A copy for tax deduction for the customer who made the purchase
- A copy for accounting purposes of the customer

The number of *Fapiao*s that may be printed for a company and the value of each individual *Fapiao* are subject to quotas determined by the

local tax bureau based on the taxpayer's business scope. If the tax bureau approves the quotas, a general taxpayer can print the **invoices using the tax bureau's printers** that are specifically designed for these purposes. One or more company staff have to be trained to use these printers.

3. General *Fapiao*s

General *Fapiao*s are only used as evidence of payment where special VAT *Fapiao*s are not applicable. For example, small-scale taxpayers or general commercial taxpayers who retail cigarettes, alcohol, food, clothing, shoes, makeup and other consumer goods cannot issue special VAT *Fapiao*s.

IX. Foreign companies and VAT

Foreign companies cannot register for VAT purposes in China. If they are aiming to enter the Chinese market, foreign entities have to establish either a Chinese foreign-invested commercial enterprise (FICE), a wholly foreign-owned entity (WFOE) or a Joint Venture. They may also operate within a free trade zone.

X. Risks

Companies have to be careful if there is no proper *Fapiao* issued. In some cases, *Fapiao*s have been faked or *Fapiao*s from other companies were used, which is a straight-forward tax evasion and crime.

When calculating goods, it is very important to make the right comparison, if the competitors are local Chinese companies. Some of these competitors might not be part of the VAT system and simply not charge any VAT (which is obviously not fully compliant). They hope for a pure cash business transaction making prices of lawful and compliant businesses up to 16% more expensive for end users.

*We hope that the information provided in this brochure was helpful for you.
If you have any further questions, please do not hesitate to contact us.*

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ANNEX

VAT Tax Return Form for general taxpayers

附件1

增值税纳税申报表
(一般纳税人适用)

根据国家税收法律法规及增值税相关规定制定本表。纳税人不论有无销售额，均应按税务机关核定的纳税期限填写本表，并向当地税务机关申报。

税款所属时间：自 年 月 日至 年 月 日 填表日期： 年 月 日 金额单位：元至角分

纳税人识别号											所属行业:	
纳税人名称	(公章)			法定代表人姓名	注册地址	生产经营地址						
开户银行及账号					登记注册类型					电话号码		
项 目	栏次	一般项目		即征即退项目								
		本月数	本年累计	本月数	本年累计							
销 售 额	(一) 按适用税率计税销售额	1										
	其中：应税货物销售额	2										
	应税劳务销售额	3										
	纳税检查调整的销售额	4										
	(二) 按简易办法计税销售额	5										
	其中：纳税检查调整的销售额	6										
	(三) 免、抵、退办法出口销售额	7		---	---							
	(四) 免税销售额	8		---	---							
	其中：免税货物销售额	9		---	---							
	免税劳务销售额	10		---	---							
税 款 计 算	销项税额	11										
	进项税额	12										
	上期留抵税额	13			---							
	进项税额转出	14										
	免、抵、退应退税额	15			---							
	按适用税率计算的纳税检查应补缴税额	16			---							
	应抵扣税额合计	17=12+13-14-15+16		---	---							
	实际抵扣税额	18 (如17<11, 则为17, 否则为11)										
	应纳税额	19=11-18										
	期末留抵税额	20=17-18			---							
	简易计税办法计算的应纳税额	21										
	按简易计税办法计算的纳税检查应补缴税额	22			---							
	应纳税额减征额	23										
应纳税额合计	24=19+21-23											
税 款 缴 纳	期初未缴税额 (多缴为负数)	25										
	实收出口开具专用缴款书退税额	26			---							
	本期已缴税额	27=28+29+30+31										
	①分次预缴税额	28		---	---							
	②出口开具专用缴款书预缴税额	29		---	---							
	③本期缴纳上期应纳税额	30										
	④本期缴纳欠缴税额	31										
	期末未缴税额 (多缴为负数)	32=24+25+26-27										
	其中：欠缴税额 (≥0)	33=25+26-27		---	---							
	本期应补(退)税额	34=24-28-29		---	---							
	即征即退实际退税额	35		---	---							
期初未缴查补税额	36			---								
本期入库查补税额	37			---								
期末未缴查补税额	38=16+22+36-37			---								
授 权 声 明	如果你已委托代理人申报，请填写下列资料： 为代理一切税务事宜，现授权 (地址) 为本纳税人的代理申报人，任何与本 申报表有关的往来文件，都可寄予此人。 授权人签字：				申 报 人 声 明 本纳税申报表是根据国家税收法律法规及相关规定填报的，我确定它是真实的、可靠的、完整的。 声明人签字：							

增值税纳税申报表附表资料（一）

（本期销售情况明细）

税款所属时间： 年 月 日至 年 月 日

纳税人名称：（公章）

金额单位：元至角分

项目及栏次		开具增值税专用发票		开具其他发票		未开发票		纳税检查调整		合计			服务、不动产和无形资产扣除项目本期实际扣除金额	扣除后		
		销售额	销项(应纳税)税额	销售额	销项(应纳税)税额	销售额	销项(应纳税)税额	销售额	销项(应纳税)税额	销售额	销项(应纳税)税额	价税合计		含税(免税)销售额	销项(应纳税)税额	
		1	2	3	4	5	6	7	8	9=1+3+5+7	10=2+4+6+8	11=9+10	12	13=11-12	14=13÷(100%+税率或征收率)×税率或征收率	
一、一般计税方法计税	全部征税项目	13%税率的货物及加工修理修配劳务	1													
		13%税率的服务、不动产和无形资产	2													
		9%税率的货物及加工修理修配劳务	3													
		9%税率的服务、不动产和无形资产	4													
		6%税率	5													
	其中：即征即退项目	即征即退货物及加工修理修配劳务	6													
		即征即退服务、不动产和无形资产	7													
二、简易计税方法计税	全部征税项目	6%征收率	8													
		5%征收率的货物及加工修理修配劳务	9a													
		5%征收率的服务、不动产和无形资产	9b													
		4%征收率	10													
		3%征收率的货物及加工修理修配劳务	11													
		3%征收率的服务、不动产和无形资产	12													
		预征率 %	13a													
	预征率 %	13b														
	预征率 %	13c														
	其中：即征即退项目	即征即退货物及加工修理修配劳务	14													
即征即退服务、不动产和无形资产		15														
三、免抵退税	货物及加工修理修配劳务	16														
	服务、不动产和无形资产	17														
四、免税	货物及加工修理修配劳务	18														
	服务、不动产和无形资产	19														

增值税纳税申报表附列资料（二）

（本期进项税额明细）

税款所属时间： 年 月 日至 年 月 日

纳税人名称：（公章）

金额单位：元至角分

一、申报抵扣的进项税额

项目	栏次	份数	金额	税额
（一）认证相符的增值税专用发票	1=2+3			
其中：本期认证相符且本期申报抵扣	2			
前期认证相符且本期申报抵扣	3			
（二）其他扣税凭证	4=5+6+7+8a+8b			
其中：海关进口增值税专用缴款书	5			
农产品收购发票或者销售发票	6			
代扣代缴税收缴款凭证	7		---	
加计扣除农产品进项税额	8a	---	---	
其他	8b			
（三）本期用于购建不动产的扣税凭证	9			
（四）本期用于抵扣的旅客运输服务扣税凭证	10			
（五）外贸企业进项税额抵扣证明	11	---	---	
当期申报抵扣进项税额合计	12=1+4+11			

二、进项税额转出额

项目	栏次	税额
本期进项税额转出额	13=14至23之和	
其中：免税项目用	14	
集体福利、个人消费	15	
非正常损失	16	
简易计税方法征税项目用	17	
免抵退税办法不得抵扣的进项税额	18	
纳税检查调减进项税额	19	
红字专用发票信息表注明的进项税额	20	
上期留抵税额抵减欠税	21	
上期留抵税额退税	22	
其他应作进项税额转出的情形	23	

三、待抵扣进项税额

项目	栏次	份数	金额	税额
（一）认证相符的增值税专用发票	24	---	---	---
期初已认证相符但未申报抵扣	25			
本期认证相符且本期未申报抵扣	26			
期末已认证相符但未申报抵扣	27			
其中：按照税法规定不允许抵扣	28			
（二）其他扣税凭证	29=30至33之和			
其中：海关进口增值税专用缴款书	30			
农产品收购发票或者销售发票	31			
代扣代缴税收缴款凭证	32		---	
其他	33			
	34			

四、其他

项目	栏次	份数	金额	税额
本期认证相符的增值税专用发票	35			
代扣代缴税额	36	---	---	

增值税减免税申报明细表

税款所属时间: 自 年 月 日至 年 月 日

纳税人名称(公章):

金额单位: 元至角分

一、减税项目						
减税性质代码及名称	栏次	期初余额	本期发生额	本期应抵减税额	本期实际抵减税额	期末余额
合计	1	1	2	3=1+2	4≤3	5=3-4
	2					
	3					
	4					
	5					
	6					

二、免税项目						
免税性质代码及名称	栏次	免征增值税项目 销售额	免税销售额扣除项目 本期实际扣除金额	扣除后免税销售额	免税销售额 对应的进项税额	免税额
		1	2	3=1-2	4	5
合计	7					
出口免税	8		---	---	---	---
其中: 跨境服务	9		---	---	---	---
	10					
	11					
	12					
	13					
	14					
	15					
	16					

纳税人名称: (公章)

金额单位: 元至角分

项目及栏次		本期服务、不动产 和无形资产价税合 计额(免税销售额)	服务、不动产和无形资产扣除项目				期末余额
			期初余额	本期发生额	本期应扣除金额	本期实际扣除金额	
			1	2	3	4=2+3	
13%税率的项目	1						
9%税率的项目	2						
6%税率的项目(不含金融商品转让)	3						
6%税率的金融商品转让项目	4						
5%征收率的项目	5						
3%征收率的项目	6						
免抵退税的项目	7						
免税的项目	8						

增值税纳税申报表附列资料（四）

（税额抵减情况表）

税款所属时间： 年 月 日至 年 月 日

纳税人名称：(公章)

金额单位：元至角分

一、税额抵减情况

序号	抵减项目	期初余额	本期发生额	本期应抵减税额	本期实际抵减税额	期末余额
		1	2	3=1+2	4≤3	5=3-4
1	增值税税控系统专用设备费及技术维护费					
2	分支机构预征缴纳税款					
3	建筑服务预征缴纳税款					
4	销售不动产预征缴纳税款					
5	出租不动产预征缴纳税款					

二、加计抵减情况

序号	加计抵减项目	期初余额	本期发生额	本期调减额	本期可抵减额	本期实际抵减额	期末余额
		1	2	3	4=1+2-3	5	6=4-5
6	一般项目加计抵减额计算						
7	即征即退项目加计抵减额计算						
8	合计						