

Newsletter No. 220 (EN)

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

June 2022

Co-authored by L&P and WTS China



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I. Introduction

Value-added tax (VAT) issues should not be underestimated when doing business in and with China, as VAT is not always a “cash neutral pass-through”. It is far more complex, may be effectively cost-incurring and therefore potentially riskier than you might expect.

China’s VAT law changed a lot in the past years. The Chinese Business Tax (BT) regime which had been co-existing with the VAT regime for years was entirely phased out in 2016. The abolishment of BT has led to certain complexity and confusion about the specific application of the different tax rates. The reform simplified China’s indirect 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.

II. VAT rates

VAT rates were witnessing a downward adjustment in recent years to reduce the tax burden in general and to boost domestic consumption. Such an adjustment has happened almost once every year in four years from 2016 to 2019. Since then and so far, Chinese VAT has maintained four ranks of VAT rates, i.e. 13%, 9%, 6%, and 0%.

As an exception, VAT rates below 6% are also available to some specific business segments under a simplified VAT filing method (in which input VAT is not creditable), e.g. 5% for residential renting income.

Different VAT rates are applied for different taxable activities:

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

- Sales and import of goods (except those stated otherwise)
- 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
- Leasing of immovable property
- Transportation services
- Sales of land use rights or immovable property
- Construction services
- Transfer of land use right
- Postal and basic telecommunication services



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, certification and consulting services, broadcasting and filming services, commercial supporting services and other modern services.)
- Lifestyle services
- Sales of intangible assets other than land use rights

The VAT rate of 0% applies for:

- Exports of goods (except those stated otherwise)
- Cross-border sales of state-specified services or intellectual properties by entities or individuals in China.

III. VAT refund mechanism

In general, the Chinese VAT system is comparable to many other VAT systems in the world. In particular, it 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 the VAT that the company receives and 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 after offsetting with input VAT.

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 carry forward the input VAT credits to the next periods (unused input VAT credit refund is possible if meeting certain criteria and applicable only to manufacturing and small and micro-scale enterprises).

This can be summarized as follows:

Output VAT – Input VAT < 0

→ VAT credit carried forward to the next period(s) or refund (if applicable)

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 Revenue/Customs Department. This must not be confused with the obligation to pay **import duty** 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 (CIF) of a good imported into 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 the importation of goods into China (except in duty-free situations).

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 import VAT payment.

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, using two different methods (see section 3 below)

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 (VAT rate = 0%) 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 official refund rate can be lower than the input VAT rate. Therefore, the adjustment of VAT refund rates for exports has been part of China's macroeconomic controlling measures in encouraging or discouraging the export of certain goods (such as agricultural products or rare earth).

By not refunding the full amount of the paid input VAT, exporters will only get part of the VAT back and may intend to export at a higher price, or could be less motivated to export them.

The VAT refund rates can range from 0% to 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 VAT 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 VAT 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 for exports, which means that the surplus amount will be re-paid by the Revenue Department to the local Chinese exporters.

For trading companies with no producing capabilities, when they export, 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

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



nothing to offset/credit).

It is important to note that authorities require export documentation to support an export VAT refund claim. Different types of exporters have to comply with different specific requirements applicable to their business activity. The export VAT refund system has been substantially improved in recent years, by making online submission possible for the whole process, and less documents are required.

VI. Import and Export of Services

In general, VAT applies if either the service supplier or the service 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 total sales price and filed by the recipient in China. The service recipient (service importer in China) is also entitled to an input VAT credit if it is registered as general VAT taxpayer.

This represents a significant difference to the German (or other) VAT system(s), as the service provider has to pay the VAT at the end – and not the service recipient in the so-called **reverse charge procedure**, as is normally the case. In addition, the Chinese service recipient can still claim an input tax deduction (although he does not have to pay the VAT himself).

Therefore, if selling goods or services to China, the seller should bear in mind this Chinese VAT liability (unless exempted) is to be deducted and withheld from the sales income originating from China.

The export of the following services is zero-rated:

- International transportation services
- Aero transportation services
- Services provided to foreign entities and consumed entirely overseas (i.e. R&D services, energy management services, design services, production and publication of broadcasting and

filming, software services, electrical circuit design and testing services, IT system services, business process management services, and offshore outsourcing services)

The following services may qualify for VAT exemption:

- Construction, supervision or exploration services for offshore projects
- Exhibition services for offshore executions
- Warehousing services for offshore warehouses
- Leasing of tangible movable property located outside China
- Broadcasting services in overseas
- Cultural, education and healthcare and travel services provided outside China
- Listed services which are sold to foreign entities and entirely consumed in overseas (i.e. telecom services, IP services, logistic support services, certification and consultation services, technical services, commercial support services, advertising services where the advertisement is released outside China, and provision of IPs)
- Postage services, delivery services and insurance for exported goods
- International transportation brokerage services (without providing transportation vehicles)
- Financial services provided to foreign entities' financing activities

VII. General Taxpayer and Small-scale VAT payer status

There are two classifications of taxpayers under the new VAT rules: the general taxpayers and small-scale taxpayers. A manufacturing or trading company whose annual taxable sales reaching the threshold of RMB 5,000,000 (approx. EUR 700,000) must register as a general VAT payer. Any business below this threshold should be a small-scale payer, **without the right** to claim input VAT credits but enjoy a much lower VAT rate. However, small-scale



payers still have the option to register as a general VAT payer if they can demonstrate the possession of a sound and well-established accounting system and the maintenance of a fixed place of business in China, subject to the approval by the tax authorities.

VIII. Invoices for VAT (*Fapiao*)

1. General

Chinese authorities require businesses to issue *Fapiao*s (official VAT invoices/receipts) to oblige companies to pay VAT for their sales. *Fapiao*s validate the sales and purchase of goods and services in China. The Chinese government has introduced them to track tax payments and deter tax evasion. *Fapiao*s are printed, distributed and administered by the Chinese tax authorities (under the leadership of State Administration of Taxation) 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, as a buyer, when receiving the *Fapiao*s, 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 correct description of taxable and non-taxable activities and the exact tax rate and amount in CNY, the Chinese currency. 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 (supplier)
- A copy for tax deduction for the customer who made the purchase
- A copy for accounting purposes of the customer

The number of blank *Fapiao*s that may be collected by a company and the maximum value of each *Fapiao* are subject to quotas determined by the local tax bureau based on the taxpayer's business scope and business volume. If the tax bureau approves the quotas, a general taxpayer can print and issue the **invoices using** authority-certified software and printer.

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, nor to issue VAT invoices (*Fapiao*s) in China. If they are aiming to enter the Chinese market, foreign entities have to establish, for example, 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.

When they sell services or goods to China and are subject to VAT, their VAT liability will be withheld and filed by the Chinese customers or withholding agents.

X. Risks

Companies with a presence in China or doing business with China have to be careful if there



is no proper *Fapiao* issued by the suppliers for their purchases. In some cases, *Fapiao*s were faked or from other companies, which is a straight-forward tax evasion and crime. Tough tax audits and judicial measures have been stepped up by the Chinese authorities to curb VAT invasion.

When setting the prices of the goods, it is very important to make the right comparison with the price components of the Chinese competitors: Some of these competitors might simply do not charge any VAT nor issue any VAT invoices (which are obviously not compliant), making their sales price apparently cheaper than others'.

From the perspective of foreign companies selling services to China in particular, Chinese VAT cost should be taken into account in advance. In principle, they cannot register in the VAT system and at the same time have to pay Chinese VAT themselves (for example, if they sell services to China) without being able to claim an input tax deduction.

For the foreign service provider, a practical option is to use the input tax deduction (from which the Chinese licensee benefits) as a basis for price negotiation with the Chinese customers in advance.

*This article is co-authored by Lorenz & Partners and WTS China.
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，我确信它是真实的、可靠的、完整的。 声明人签字：						



增值税纳税申报表附列资料（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)税额	销售额	销项(应 纳)税额	销售额	销项(应 纳)税额	销售额	销项(应 纳)税额	销售额	销项(应 纳)税额	价税合 计		含税(免 税)销售 额	销项(应 纳)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
		1	2	3=1+2	4≤3	5=3-4
合计	1					
	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				
		期初余额	本期发生额	本期应扣除金额	本期实际扣除金额	期末余额
		1	2	3	4=2+3	5(5≤1且5≤4)
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						