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LEA VAT Collaboration Group meeting Digital September 26th, 2024:

Introduction to VAT in China

Hannah Feng

Dezshira& Associates Beijing, China

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30 YEARS
1992 - 2022
CELEBRATING
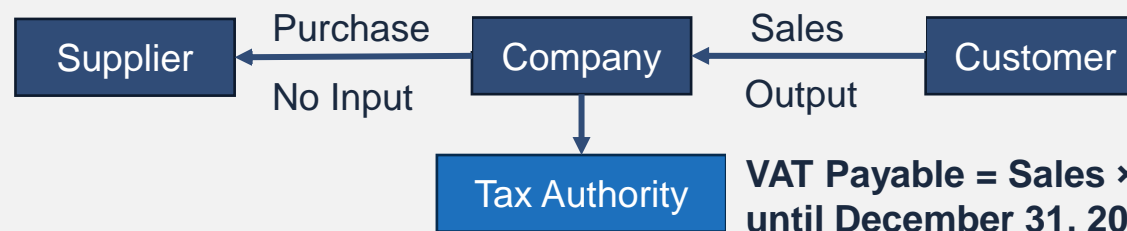
Today's Speaker:

Hannah Feng
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Multiple VAT Rates and Comprehensive Tax Base

3% - Small-Scale VAT Taxpayer (annual turnover < RMB 5 million)

Supplier ← Purchase — Company ← Sales — Customer

No Input

Output

Company → Tax Authority

VAT Payable = Sales × VAT Rate (3%, reduced to 1% until December 31, 2027)

6%/9%/13% - General VAT Taxpayer

Supplier ← Purchase — Company ← Sales — Customer

Input

Output

Company → Tax Authority
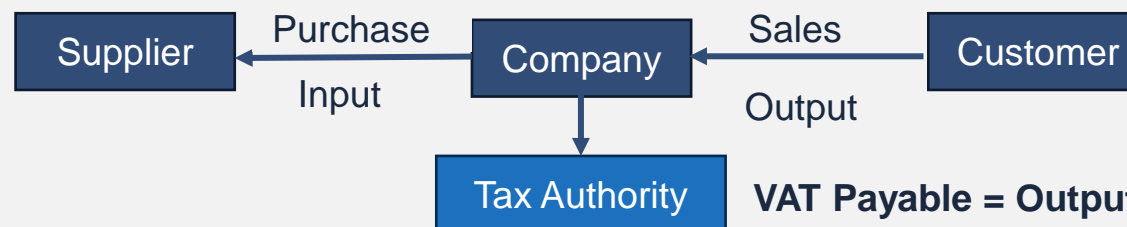
VAT Payable = Output - Input

- *13% - Sale and importation of most goods and provision of repair, replacement, and processing services*
- *9% - Transportation, postal, basic telecommunications, real estate, and construction services, and sale of goods essential to citizen's daily lives, including agricultural products, heating, gas supplies, books, etc.*
- *6% - Other services, including financial and insurance services with few exceptions or exclusions*

Overseas Company's VAT Implications in China

VAT Registration

- Do not allow non-resident taxpayers to register for VAT in China
- Cannot claim back Chinese input VAT
- No VAT registration mechanisms designed for taxing electronically supplied services
    - B2C – currently no VAT collection mechanism
    - B2B – VAT is subject to withholding

Goods Import and Export

- VAT applies to goods imported through customs declaration
- Exported goods qualify for zero rating, but the refund rate may be less than the VAT incurred

Service Import and Export

- VAT withholding – applies to services provided by an overseas party to a company or individual in China
- Exemption or Zero-rated – only apply under strict conditions

Service Fees *withholding tax calculation – outbound payment*

Item	Formula	Amount	Final %
Service Fee	(1)	1,000,000	100
VAT	(2) = (1) / (1 + 6%) * 6%	56,604	5.7

Royalties *withholding tax calculation – outbound payment*

Item	Formula	Amount	Final %
Royalty Fee	(1)	1,000,000	100
Withholding Tax	(2) = (1) / (1+6%) * 10%	94,340	9.4
VAT	(3) = (1) / (1 + 6%) * 6%	56,604	5.7

A Few More…

No consolidated VAT Filing	No VAT Registration Threshold
No bad debt relief	Limited advance rulings

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