

## Tax

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# Tax Analysis

## SAT Strengthens Management of VAT General Invoices

China's State Administration of Taxation (SAT) issued guidance (Bulletin 16) on 19 May 2017, which requires that, as from 1 July 2017, the taxpayer identification number or unified social credit number (collectively referred to as "TIN") must be specified on a VAT general invoice issued to an enterprise.

### Background

Following the rollout of the VAT reform in 2016, more enterprises are able to receive and issue VAT invoices (including special and general invoices). Since VAT special invoices can be used to support a claim for an input credit, the management of these types of invoices traditionally has been an area of focus of the tax authorities. Special invoices issued to enterprises must contain detailed information (e.g. name, TIN, address, bank account, etc.) of both the seller and the buyer. The buyer's TIN enables the tax authorities to electronically identify the buyer in the computerized VAT invoice management system and track and match the transaction data. However, unlike VAT special invoices, VAT general invoices cannot be used to support an input credit claim and, hence, historically there has not been any requirement to include the buyer's TIN on a VAT general invoice. This loophole in the rules has enabled taxpayers to issue VAT general invoices for false transactions in order to obtain tax benefits, in particular, where the relevant goods or services are VAT-exempt. The issuance of Bulletin 16 aims to close this loophole and strengthen the management of VAT general invoices.

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## Highlights of Bulletin 16

### Use of TIN on VAT general invoices

As from 1 July 2017, when a purchaser in a VAT-able transaction is an enterprise that requests a VAT general invoice from the seller, the buyer must provide its TIN to the seller. An "enterprise" for these purposes is defined broadly to include a corporation, non-corporate enterprise, branch office, partnership, sole proprietorship and other forms of enterprises.

The seller must complete the column, "TIN of purchaser" on the invoice when issuing the VAT general invoice. If the TIN of the purchasing enterprise is not included, the general invoice will not be considered a valid supporting document for tax purposes.

### Authenticity of invoice information

Bulletin 16 emphasizes that all information in a VAT invoice must be consistent with the facts underlying the transaction; a seller may not issue a VAT invoice that contains incorrect sales volume, price information, etc. even if so requested by the purchaser.

Many taxpayers have interfaced their sales platform systems with a VAT invoice management system so that invoicing data can be automatically imported into the latter to facilitate the invoicing process. To address this situation, Bulletin 16 specifically requires sellers to ensure that the invoicing data exported from the sales platform is consistent with the actual transaction.

### Comments

Since most goods and service transactions now fall within the scope of Chinese VAT, the implementation of Bulletin 16 will significantly enhance the capacity of the tax authorities' supervision over domestic VAT-able transactions. The use of a TIN will help the authorities to obtain effective and efficient tax data for analysis and risk management. For instance, tax authorities will be able to identify the buyer and the seller through TINs in the invoice management system and detect any significant discrepancies between the sales reported by the seller and expenditure claimed by the buyer.

Taxpayers should ensure they comply with the new VAT invoicing requirements and, in particular, take note of the fact that a VAT general invoice issued after 1 July 2017 that is missing the TIN of the purchasing enterprise will not be considered a valid supporting document for tax purposes.

We expect that unqualified VAT general invoices could have the following consequences:

- Disallowance of an income tax deduction for any expenditure relating to the general invoice;
- Denial of an input VAT credit associated with VAT-exempt agricultural products; and
- Disallowance of a deduction from the sales proceeds to calculate VAT output for expenditure relating to the general invoice, where such expenditure could have been deducted had the invoice been valid.

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## Recommendations

In view of the possible increase in tax costs resulting from the issuance of unqualified VAT general invoices and the enhanced risk that the SAT will detect non-compliant invoicing activities, affected businesses should consider the following actions:

Purchasers should update their invoice collection/review processes, including:

- When purchasing goods and services and collecting VAT general invoices, relevant employees should provide the purchaser's TIN to the seller, and review the accuracy of the TIN information displayed on the invoice. If the TIN information is incorrect, the employee should immediately request cancellation of the original invoice and a reissuance of the invoice.
- When reviewing employees' reimbursement requests supported by a VAT general invoice, examine the accuracy of the TIN information displayed on the invoice. If the TIN information is incorrect, the reviewer should not approve the reimbursement.
- Consider the implementation of technology to automate the invoice review process to improve efficiency.

Sellers should consider the following actions:

- Review current invoicing data (e.g. names, description of goods and services) in their sales platform systems against the transaction facts to ensure consistency.
- Update the relevant invoicing data according to the review results and ensure data synchronization with the invoice management system on real-time basis.

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