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SAT Issues Guidance on Registration of General VAT Payers

Authors:

Shanghai
Liqun Gao
Partner
Tel: +86 21 6141 1053
Email: ligao@deloitte.com.cn

June Qu
Senior Manager
Tel: +86 21 6141 1087
Email: junqu@deloitte.com.cn

China's State Administration of Taxation (SAT) published guidance (SAT Order No. 43, Order 43) on 29 December 2017 that further clarifies and streamlines the registration requirements for general VAT payers. The new rules apply as from 1 February 2018.

Background

After VAT was introduced in China in the 1990s, a taxpayer was required to obtain the approval of the tax authorities to qualify for general VAT payer status. Without this status, the taxpayer could account for VAT payable only under the simplified taxing method and, hence, would be unable to claim an input VAT credit or issue VAT special invoices (Since the receipt of a VAT special invoice will support the ability of a purchaser with general VAT payer status to credit input VAT, such purchasers are more willing to trade with suppliers having general VAT payer status). To create a more business-friendly environment, the State Council announced in early 2015 that the pre-approval requirement for general VAT payer status would be abolished. The SAT subsequently issued Bulletin 18, which officially confirmed that advance approval would not be required starting on 1 April 2015 and suspended the implementation of relevant rules in the Administrative Measures for the Recognition of General VAT Payers (SAT Order No. 22, Order 22). Following the issuance of Bulletin 18, a qualifying taxpayer only is required to submit a form to the tax authorities to be registered as a general VAT payer.

However, following the nationwide rollout of the VAT reform on 1 May 2016, questions arose as to whether and how Order 22 and Bulletin 18 would apply to new VAT payers on a go-forward basis. To clarify these issues, the government issued Order 43 that applies to all VAT payers and further streamlines the registration process.

Highlights of Order 43

Order 43 basically follows the provisions of Bulletin 18 that require a VAT payer whose annual taxable sales reaches the specified threshold (i.e. RMB 500,000 for manufacturers or taxpayers providing processing, repair and replacement services; RMB 800,000 for wholesalers and retailers; and RMB 5 million for taxpayers providing other taxable services, transferring intangible assets or immovable assets) to submit a form to the tax authorities to register as a general VAT payer. No pre-approval or onsite-review is required to obtain this status. However, Order 43 clarifies the following issues:

1. ***Situations where registration will not be allowed*: General VAT payer registration will not be allowed in the following cases, regardless of whether the applicant's annual taxable sales reach the threshold:**

   - **Where the taxpayer elects to account for its VAT payables under the simplified taxing method. Such taxpayers mainly include non-enterprise organizations, entities that seldom engage in taxable activities and individual industrial and commercial households; and**

   - **Where the taxpayer is an individual (other than an individual industrial and commercial household).**

2. ***Definition of annual taxable sales*: Order 22 defines "annual taxable sales revenue" as the aggregate taxable sales revenue for an operation period of no longer than 12 consecutive months. Order 43 provides that, for taxpayers that file VAT returns on a quarterly basis, the annual taxable sales revenue means the aggregate taxable sales for an operation period of no longer than four consecutive quarters.**

   Order 43 also clarifies that taxable sales includes both taxable sales reported by the taxpayer in its VAT return, as well as taxable sales that are assessed by the tax authorities.

   Taxable sales for taxpayers that are permitted to deduct certain items from gross revenue to determine VAT output must be computed based on gross revenue before the deductions to ascertain whether the registration threshold is reached.

   Occasional sales of intangible assets or immovable assets are not taken into account in computing taxable sales.

3. ***Timing requirements*: Once a taxpayer's annual taxable sales reach the threshold, it must submit its registration form within 15 days (previously, 20 business days) from the last day of the VAT filing period for the month or quarter in which the annual taxable sales reached the threshold.**

   If the taxpayer fails to submit the form on a timely basis, the competent tax authorities must produce a tax notification within five days (previously, 10 business days) requesting that the taxpayer submit the form within another five days (previously, 10 business days). If the taxpayer fails to submit the form, then starting from the next month, it must compute its VAT payable by multiplying the taxable sales by the VAT rate, without credit for input VAT. This computation method must be used until the general taxpayer registration process is completed.

For more information, please contact:

Asia Pacific Indirect Tax Services Leader
Hong Kong
Sarah Chin
Partner
Tel: +852 2852 6440
Email: sachin@deloitte.com.hk

Northern China
Beijing
Yi Zhou
Partner
Tel: +86 10 8520 7512
Email: jchow@deloitte.com.cn

Eastern China
Shanghai
Liqun Gao
Partner
Tel: +86 21 6141 1053
Email: ligao@deloitte.com.cn

Southern China
Guangzhou
Janet Zhang
Partner
Tel: +86 20 2831 1212
Email: jazhang@deloitte.com.cn

Western China
Chongqing
Frank Tang
Partner
Tel: +86 23 8823 1208
Email: ftang@deloitte.com.cn

4. *Effective date of general VAT payer status*: When a taxpayer completes a registration form, it may elect to have its general VAT payer status apply as from the first day of the month in which it makes the registration or, alternatively, the first day of the following month. Once general VAT payer status is effective, the taxpayer must compute VAT payable under the general taxation method and, therefore, it will be allowed to issue VAT special invoices.

Comments

Order 43 consolidates certain previous guidance (i.e. Order 22 and Bulletin 18), clarifies some practical issues that arose following the VAT reform and reiterates the government's intention to create a business-friendly environment by providing simplified registration formalities and allowing taxpayers to elect the effective date for general VAT payer status.

Taxpayers, however, should be aware of the following:

1. Registration obligation

It is worth noting that annual taxable sales do not refer to the sales in a calendar year, but rather sales during an operating period that does not exceed 12 consecutive months or four consecutive quarters. For example, if a taxpayer begins to operate in March 2018 and file VAT on a quarterly basis, it must monitor its taxable sales from the first quarter of 2018; once the aggregate taxable sales in an operation period of no more than four consecutive quarters exceed the threshold, the taxpayer must register as a general VAT payer. Therefore, any enterprise whose taxable sales are expected to reach the threshold in the next one or two years should closely monitor the sales amount on a monthly or quarterly basis to avoid any possible negative impact if it fails to register in a timely manner.

2. Change of taxing method

Since different taxing methods apply to non-general VAT payers (i.e. small-scale VAT payers) and general VAT payers, a change in VAT payer status will affect the taxpayer's tax burden and financial accounting. Potentially affected businesses should take this into consideration when preparing financial plans. They also should take their business needs and other relevant factors (e.g. timing of significant purchases) into account when determining the effective date of general VAT payer status.

3. Tax data management

After a taxpayer submits the general VAT payer status registration form, the tax authorities will compare the information in the form against the data already collected and stored in the tax authorities' system. Given the significantly enhanced tax information storage and processing capabilities of the Chinese tax authorities, taxpayers should ensure the accuracy and consistency of all data submitted to the authorities and establish a robust tax data/documentation management system.

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Beijing
Andrew Zhu
Partner
Tel: +86 10 8520 7508
Fax: +86 10 8518 1326
Email: andzhu@deloitte.com.cn

Harbin
Jihou Xu
Partner
Tel: +86 451 8586 0060
Fax: +86 451 8586 0056
Email: jihxu@deloitte.com.cn

Shenyang
Jihou Xu
Partner
Tel: +86 24 6785 4068
Fax: +86 24 6785 4067
Email: jihxu@deloitte.com.cn

Chengdu
Frank Tang / Tony Zhang
Partner
Tel: +86 28 6789 8188 / 8008
Fax: +86 28 6500 5161
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Hong Kong
Sarah Chin
Partner
Tel: +852 2852 6440
Fax: +852 2520 6205
Email: sachin@deloitte.com.hk

Shenzhen
Victor Li
Partner
Tel: +86 755 3353 8113
Fax: +86 755 8246 3222
Email: vicli@deloitte.com.cn

Chongqing
Frank Tang / Tony Zhang
Partner
Tel: +86 23 8823 1208 / 1216
Fax: +86 23 8859 9188
Email: ftang@deloitte.com.cn
tonzhang@deloitte.com.cn

Jinan
Beth Jiang
Partner
Tel: +86 531 8518 1058
Fax: +86 531 8518 1068
Email: betjiang@deloitte.com.cn

Suzhou
Maria Liang / Kelly Guan
Partner
Tel: +86 512 6289 1328 / 1297
Fax: +86 512 6762 3338
Email: mliang@deloitte.com.cn
kguan@deloitte.com.cn

Dalian
Bill Bai
Partner
Tel: +86 411 8371 2816
Fax: +86 411 8360 3297
Email: bilbai@deloitte.com.cn

Macau
Raymond Tang
Partner
Tel: +853 2871 2998
Fax: +853 2871 3033
Email: raytang@deloitte.com.hk

Tianjin
Andrew Zhu
Partner
Tel: +86 22 2320 6688
Fax: +86 22 8312 6099
Email: andzhu@deloitte.com.cn

Guangzhou
Victor Li
Partner
Tel: +86 20 8396 9228
Fax: +86 20 3888 0121
Email: vicli@deloitte.com.cn

Nanjing
Frank Xu / Rosemary Hu
Partner
Tel: +86 25 5791 5208 / 6129
Fax: +86 25 8691 8776
Email: frakxu@deloitte.com.cn
roshu@deloitte.com.cn

Wuhan
Gary Zhong
Partner
Tel: +86 27 8526 6618
Fax: +86 27 6885 0745
Email: gzhong@deloitte.com.cn

Hangzhou
Qiang Lu / Fei He
Partner
Tel: +86 571 2811 1901
Fax: +86 571 2811 1904
Email: qilu@deloitte.com.cn
fhe@deloitte.com.cn

Shanghai
Eunice Kuo
Partner
Tel: +86 21 6141 1308
Fax: +86 21 6335 0003
Email: eunicekuo@deloitte.com.cn

Xiamen
Jim Chung / Charles Wu
Partner / Director
Tel: +86 592 2107 298 / 055
Fax: +86 592 2107 259
Email: jichung@deloitte.com.cn
chwu@deloitte.com.cn

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National Tax Technical Centre
Email: ntc@deloitte.com.cn

National Leader
Southern China (Hong Kong)
Ryan Chang
Partner
Tel: +852 2852 6768
Fax: +852 2851 8005
Email: ryanchang@deloitte.com

Northern China
Julie Zhang
Partner
Tel: +86 10 8520 7511
Fax: +86 10 8518 1326
Email: juliezhang@deloitte.com.cn

Eastern China
Kevin Zhu
Director
Tel: +86 21 6141 1262
Fax: +86 21 6335 0003
Email: kzhu@deloitte.com.cn

Southern China (Mainland / Macau)
German Cheung
Director
Tel: +86 20 2831 1369
Fax: +86 20 3888 0121
Email: gercheung@deloitte.com.cn

Western China
Tony Zhang
Partner
Tel: +86 28 6789 8008
Fax: +86 28 6317 3500
Email: tonzhang@deloitte.com.cn

If you prefer to receive future issues by soft copy or update us with your new correspondence details, please notify Wandy Luk by either email at wanluk@deloitte.com.hk or by fax to +852 2541 1911.