VALUE ADDED TAX

VAT applies to all enterprises and individuals engaged in sales of goods, provision of processing, repairs and replacement services, and the importation of goods into China. General VAT rate is 17%, but necessities goods are taxed at 13%. VAT payable or refundable is based on output VAT (for Sales) minus input VAT (for Purchases). Generally, there is no VAT payable for export. VAT is the major source of tax revenue to Chinese government, they therefore impose a very rigid rulings and system to tackle tax avoidance.

Input VAT

Input VAT 17% is computed on the total basis of CIF value and import custom duty paid and is payable by consignee in China on import declaration of goods. Input VAT and import custom duty, are direct costs of sales for a trading company. The China custom will be held responsible to issue the import VAT invoices.

Output VAT

Output VAT is due payable when goods are sold locally in China which generally coincides with the delivery of goods to customers. In China there are two types of taxpayers for VAT, namely General taxpayer GTP, and Small taxpayer STP. General taxpayers have higher status, representing larger trading companies, being GTPs enabling themselves to issue 17% VAT invoices. Under GTP status, a taxpayer pays net of output VAT 17% less deduction of input VAT paid to the State tax bureau. While, STP is restricted to open 3% VAT invoices for small companies. STP is liable to pay gross output VAT 3% based on sales amount, without deduction of input VAT paid.

Tax payable and refundable

Tax payable and refundable is computed monthly and payable in the beginning of the following month based on the difference between Output VAT and Input VAT of the current month. Tax refundable is restricted to the amount of input VAT already paid or the refundable amount based on export value. i.e.
Tax payable / refundable = Output VAT - Input VAT

Surcharge for manufacturing industry

Additional VAT is chargeable / non-deductible for manufacturer engaged in export or import of goods. The surcharge is calculated in the following formula:
Surcharge = (Export - Import) x (17% - Refund rate)

This surcharge is not applicable to import and export trading company.

Relevant tax laws

The tax law states doing local sales in mainland China without VAT invoice is not legal. Both seller and buyer may be liable to prosecution and penalty.
Whenever the turnover of a trading company reaches CNY 800,000 (Manufacturer : CNY 500,000) for a calendar year, a taxpayer is enforced by the State tax bureau to pay 17% output VAT instead of 3% output VAT. The deduction of input VAT against 17% output VAT, is not taken for granted, and is permitted only if the taxpayer successfully applies the GTP status.