

LEHMANBROWN

律華會計師事務所

International Accountants

[insights@lehmanbrown : Taxation Special Feature](#)

Changing of the Beijing Local Business Taxation

Computerised Taxation System

税

Changing of the Beijing Local Business Taxation collection system

There have been major changes in all facets of Chinese taxation in recent months, especially in the country's capital, Beijing. Whether it be a government crackdown on individual income tax avoidance (targeting income earners over 100,000 RMB per year), or the constant decreasing customs duties across all commodities, keeping up-to-date with China's tax regulation is a constant task.

In this "insights@lehmanbrown special", we look at the major changes affecting the business tax collection system in Beijing. Whilst the system may not seem like a drastic change from the arguably inefficient current system, there could be upsides for those readers living in Beijing ... in the form of cold hard cash!

In China there are essentially 3 main types of corporate taxes:

1. Corporate Income Tax (based on business profits) and generally at 33%,
2. Value Added Tax (based on sales of goods) usually at 17% and
3. Business tax (based on sales of services), generally between 3-5%.

Business taxation in China is collected at both local and national levels, whilst Valued Added Tax (VAT) and Corporate Income Tax (CIT) are collected predominately at national levels (they are also collected at local levels in some instances).

Business tax:

The "*fa piao*" (·¢Æ±) system is the backbone for the tax authorities to calculate and collect business tax. A "*fa piao*" is the generic name for an "invoice" which is provided by businesses to consumers for the amount of services or goods rendered.

For example, if a consumer was to get a haircut they would collect (be provided with) a service invoice "*fuwu ye fa piao*" (·¸¸¸·¢Æ±) for the cost of the service, on which the hairdresser would pay business tax. This business tax is collected by the local tax department.

If, however the consumer was then to buy a pair of scissors from the hairdresser, they would be provided with a goods invoice "*zengzhi shui fa piao*" (ÔöÖµË°·¢Æ±) for the costs of the goods, on which the hairdresser would pay Value added tax (VAT). This tax would be payable to the national tax department.

[services@lehmanbrown](#)

Professional Services

Financial Accounting

Management Accounting

Systems Solutions

Business Management

增值税

"Zeng Zhi Shui"
(Value Added Tax)

增值税

"Ying Ye Shui"
(Business Tax)

消费税

"Xiao Fei Shui"
(Consumption Tax)

所得税

"Suo De Shui"

The old system:

The above example demonstrates the degree of complexity and bureaucracy of the current "fa piao" system for corporate tax collection in China. However, these problems are even greater exacerbated by the fact that the burden for collecting the "fa piao" invoices rests with the consumer. Thus, if the consumer does not request the invoice (there was no incentive for individual consumers to collect the invoices on the tax authority's behalf), and the business does not offer them, the government does not have any audit trail or method for accurately calculating VAT and Business Taxes. Similarly, when a consumer did request a fa piao generally there was a bargaining process which followed as to what the amount of the invoice should be.

As a result there was a large problem of underreporting of services and goods sales in China and, thus, under-collection of taxation. This vicious cycle then continues as local tax departments, to combat this underreporting, arbitrarily estimate sales figures on which businesses are obliged to pay taxes. Of course these figures would vary widely depending on the person at the the tax authority, the mood they were in, the relationship that the business had with the person and many other such factors.

On the other side, business consumers could claim their purchased fa piao's as business expenditure and therefore reduce their profits (thereby reducing their corporate income tax payable). This saw an outbreak of fake fa piao's as businesses tried to dodge the tax man.

In an attempt to break this cycle, the local Beijing tax department has, as of August 1, 2002, introduced a new invoice ("Fa Piao") system for business tax collection purposes

The new systems aims to:

1. Increase use of digital anti-forgery invoices.
2. Increase using tax-control procedures to better calculate taxes payable. This includes improved invoice-issuing facilities and quota systems whereby invoices are purchased with nominal face values.
3. Develop a reward system to 'incentivise' consumers to ask for invoices.
4. Provide convenient access to identify fake invoices through website and telephone.

Mechanics of the new system:

1. Businesses will be required to purchase one of a number of different types of machines which will be used to print the invoices. The types of machines will depend on the types of invoices the company is required to supply (see 2 below)
2. Introduction of 10 types of invoices (differing by industry groups)
3. Introduction of the "lottery system" as an incentive scheme
4. Introduction of an "IC" card for businesses to record details of their invoices issued (businesses are required to purchase the card and the special machine from the tax authority). These cards are then taken to the local tax department and submitted for proof or invoice issuance and calculation of taxes payable. This avoids the use of paper documentation and information can be readily gathered by the tax authorities to calculate business taxation obligations.

Other interesting characteristics of the new invoice system:

1. The names of the different invoices are based on the industry classification to which the invoice applies (previously there was just one single generic invoice).
2. The languages used in the cover of the invoices are Chinese and English, in line with meeting WTO requirements.
3. There are scratch award areas on the Beijing Quota Special Invoice and Beijing Special Invoice for Service Industry, Entertainment Industry and Physical Cultural Industry, to incentivise consumers to ask for the invoices. The award amounts are 100 yuan per invoice, 200 yuan per invoice, 500 yuan per invoice, 800 yuan per invoice, 1000 yuan per invoice, 3000 yuan per invoice, 5000 yuan per invoice.

The government has decided to put the "scratch awards" on these invoices, as they are predominately issued to consumers. Under the present system there is little incentives for consumers to collect the invoices (aside from the moral burden of helping the country collect tax). Thus, the idea is that there is financial gain for consumers to ask for the invoice and the system also raises awareness about the need to request the invoices to help enforce the taxation burden. This is quite evident with the media attention already generated.

The new invoice system commenced on August 1, 2002 and the government hopes to have all measures in place by the end of 2002.

Whilst it is difficult to say whether the new system will overcome the rife corruption and underreporting of business tax by service businesses in Beijing, it would appear that the tax authority is making a concerted effort to raise awareness in the public arena and reward consumers for helping enforce the tax burden.

With the recent arrest of Liu Xiaoqing, and the tax authority's insistence on cracking down on avoidance of personal income tax, it would also appear that this system (given the timing) may be a means of diverting attention away from the government's attack on individual taxpayers and towards the bigger (corporate) end of town.

However, even with this new system in place the government must also crack down on accounting procedures of local companies. As long as local companies (excluding listed companies) are not required to be audited, the tax authority will constantly face the problem of dealing with a predominately cash society where the onus of collecting taxes is placed on consumers.

Computerised Taxation System

China is to invest 9 billion yuan (about US\$1.08 billion) in a new computerized taxation information system, State Administration of Taxation (SAT) director Jin Renqing said at a national taxation conference yesterday.

According to Jin, China will establish a nationwide computer network in five years to collect and share taxation data among taxation offices all over the country. This would effectively prevent illegal tax evasion and fraud as well as give taxpayers a higher quality service, Jin said.

The project would combine two recognized computer network and software systems as well as newly designed software to forge an advanced and comprehensive taxation management system, said Yu Dong, an official in charge of SAT's information center.

The project was not only a technical breakthrough, but also a reform in the field of taxation management and a vital part of China's emerging electronic governance, Jin said.

Asia Pulse - August 14, 2002

"Providing an alternative in China"

insights@lehmanbrown provides updates of the latest taxation and accounting regulations in the People's Republic of China. It is designed to provide you with interesting and informative information to assist in your dealings with China or any China-related issues that you may encounter.

If you do not wish to receive this newsletter, we have provided an unsubscribe facility below.

LehmanBrown also provides a monthly newsletter *Peeling the Onion* which investigates certain topical issues affecting businesses in China, particularly for those companies and individuals with operations in the PRC, or looking to establish a presence in-country.



Recent editions include:

- ▶ Due Diligence in China
- ▶ Transfer Pricing Strategies in China
- ▶ Business Fraud in China
- ▶ Corporate Valuations in China
- ▶ Crisis Management in China
- ▶ China's Changing Tax Environment
- ▶ Internal Controls in China
- ▶ Establishing an SME in China
- ▶ Managing Your China Business Under SARS
- ▶ Treasury Management in China
- ▶ Banking in China
- ▶ Mergers and Acquisitions in China
- ▶ Bridging the Accounting Standards Gap in China
- ▶ The Changing Role of CFOs and Accountants in China
- ▶ Transfer Pricing Investigations...When not if!

You can subscribe to these newsletters through our website: www.lehmanbrown.com

Or you can visit the full LehmanBrown library at: www.lehmanbrown.com/library.htm