

New Administrative Measures for VAT General Taxpayer Recognition

[9th July, 2010 Issue 8]

On 10th February 2010, China's State Administration of Taxation (SAT) issued Decree [2010] No. 22 "Administrative Measures for Value Added Tax (VAT) General Taxpayer Recognition" (the New Recognition Measures), which replace the old recognition measures issued in 1993.

Background

The current China VAT regime provides for two types of VAT payers: general taxpayers and small-scale taxpayers. A small-scale taxpayer is a manufacturer or taxable service provider whose annual taxable sales amount does not exceed RMB 500 000 or any other taxpayer (e.g. wholesalers and retailers) whose annual taxable sales amount is not greater than RMB 800 000. All other VAT payers are classified as general taxpayers.

General taxpayers are subject to a 13% VAT rate for designated goods and a 17% VAT rate for all other goods and all taxable services. Generally, they are allowed to deduct input VAT from output VAT. Small-scale taxpayers are subject to VAT at 3% of taxable sales, and input VAT deductions are not allowed.

Highlights of the New Recognition Measures

1. The New Recognition Measures state that a VAT payer with annual taxable sales amounts exceeding the prescribed threshold for small-scale taxpayers shall apply for VAT general taxpayer status with its in-charge tax authority. The annual taxable sales amount refers to accumulated taxable sales (including VAT exempted sales) derived by VAT taxpayers within any consecutive 12 months.

2. The New Recognition Measures provide that small-scale taxpayers with annual taxable sales amounts below the prescribed thresholds and newly established enterprises are also allowed to apply for the VAT general taxpayer status. The applications shall be approved by the in-charge tax authority if the taxpayers:

- Have fixed premises for their business;
- Are able to set up accounting books according to national accounting rules; able to account based on legitimate and valid vouchers; able to provide accurate tax information.

3. The New Recognition Measures state that the following taxpayers cannot apply for the VAT general taxpayer status:

- Individuals other than individual industrial and commercial households;
- Entities that are not enterprises but elect to be small-scale taxpayers;
- Enterprises that seldom conduct taxable activities but elect to be small-scale taxpayers.

4. Once recognised as VAT general taxpayer, the enterprise is thereafter not allowed to change status to a small-scale VAT taxpayer.

The New Recognition Measures, which became effective on 20th March 2010, also provide detailed information on administrative procedures, timeline and documentation requirements for VAT general taxpayer recognition purpose.

LehmanBrown's Observation

A major change introduced by the New Recognition Measures is that the threshold should now be calculated on the basis of any consecutive 12 months rather than one calendar year.

Furthermore, pursuant to Guoshuihan [2008] No.1079, VAT small-scale taxpayers with annual taxable sales amounts exceeding the prescribed threshold must apply for the VAT general taxpayer status, otherwise, they will be taxed at 17% VAT rate and cannot issue VAT invoices nor claim any input VAT credit.

Enterprises who are small-scale VAT taxpayers and who are newly established are urged to closely watch sales amounts.