

LehmanBrown regulation updates on VAT consolidated filing

[17th April, 2013 Issue 1]

Consolidated VAT filing requirements

The Ministry of Finance ("MOF") and the State Administration of Taxation ("SAT") jointly issued circular Caishui [2012] No. 84, i.e. "Provisional Measures for the VAT Calculation and Reporting of Pilot Taxpayers with Headquarters and Branches under the Pilot Program" on 31 December 2012 (hereinafter referred to as "Circular 84"). Circular 84 stipulates the framework of a consolidated VAT filing for pilot taxpayers with cross region operations.

Key features of Circular 84 are as follows:

1. Scope of the consolidated VAT filing prescribed in Circular 84

The consolidated VAT filing only applies to pilot taxpayers with the branches in both pilot and non-pilot places that are specifically approved by the MOF and SAT (the "pilot taxpayers") and only to those VAT taxable services prescribed under VAT reform, i.e. transportation Industry and certain modern service industry ("VAT taxable services").

2. Consolidated VAT calculation and payment

Circular 84 provides that the headquarters of pilot taxpayers shall calculate the VAT payable on a consolidate basis for VAT taxable services and, upon credit of the input VAT, settle the VAT payment locally. The calculation procedures of consolidated VAT payable are as follows.

- **Firstly**, the consolidated turnover is calculated by the formula below.

Consolidated turnover of the pilot taxpayers = turnover of headquarters and branches located in pilot regions on VAT taxable services + turnover of branches located in non-pilot regions on VAT taxable services / (1+applicable VAT rate).

- **Secondly**, the input VAT shall be calculated. Only input VAT paid by the headquarters and branches of the pilot taxpayers on the VAT taxable services is allowed to be consolidated and credited against output VAT at the headquarters level.

- **Finally**, the pilot taxpayers shall calculate the consolidated VAT based on the consolidated turnover and the applicable VAT rate. Meanwhile, the pilot branches and non-pilot branches adopt the different calculation methods as below.

(i) VAT payable of pilot branch

VAT payable = sales amount x provisional VAT collection rate*

** A provisional VAT collection rate shall be determined and adjusted by the MOF and the SAT.*

(ii) BT payable of non-pilot branches

Non-pilot branches shall calculate and pay BT according to the prevailing BT regulations.

(iii) Consolidated VAT payable=consolidated turnover x applicable VAT rate– VAT payable calculated above – BT payable calculated above

3. Treatment of traditional VAT activities

It should be noted that the traditional VAT activities, - sales of goods and provision of processing, repairing and replacements services - shall continue to follow regular VAT rules and reporting requirements. As per the provision of Circular 84, only input VAT incurred on VAT taxable services can be credited against output VAT, thus, if a pilot taxpayer provides both traditional VAT activities and VAT taxable services, VAT payable for VAT taxable services and traditional VAT goods shall be accounted for separately by the pilot taxpayers.

4. Impact to VAT taxpayers

- Based on Circular 84, the branches placed in pilot regions shall file VAT by adopting the simplified method with collection VAT rate, instead of general input-output VAT approach. This may reduce the compliance complexity to the pilot branches.

- According to Circular 84, input VAT on a consolidated basis also includes the input VAT incurred for the provision of VAT taxable services by the non-pilot branches. However, Circular 84 is silent on clarification as to which entity (i.e. the headquarters or the non-pilot branches) should obtain special VAT invoices and perform the relevant VAT invoice verification for input VAT credit purposes.

As Circular 84 only stipulates the general provision for pilot taxpayers to file VAT on a consolidate basis, it is anticipated that subsequent detailed rules may be issued soon. Pilot taxpayers with cross-region operation should study the circular carefully to ensure the full compliance on VAT consolidated filing and stay tuned for any development in this regard.