

➤ **Q: How should small-scale taxpayers compute their vat payable?**

A: The small-scale taxpayers are taxed in simplified manner: the vat payable is computed on the basis of the sales value of goods and/or services and the prescribed applicable vat levying rate. The vat is collected together with the payment for sales from the purchasers and handed over to the tax department.

For the small-scale taxpayers engaged in goods wholesaling or retailing and principally engaged in goods wholesaling or retailing and concurrently in goods production or provision of taxable services, the vat levying rate is 4%. All other small-scale taxpayers are liable to 6% vat levying rate.

Besides, 4% vat levying rate is also applicable to the commission shops on sales of goods on commission, to the mortgage businesses on sales of dead mortgages, to sales of second-hand commodities, to the approved duty-free shops on sales of tax-exempt goods, and to the auction firms on trusted auctions of taxable goods.

The formula for calculating the tax payable is as follows:

Tax payable = Sales value * Applicable levying rate

If the sales prices of the goods or services are tax inclusive prices, the taxpayers have to work out the tax exclusive sales value by using the following formula;

Tax exclusive sales value = Tax inclusive sales value / (1 + Applicable levying rate)

Any adjustment to the levy rates shall be determined by the State Council.

The sales value rebated to the purchasers by small-scale taxpayers due to sales return or discount should be deducted from the sales value of the current period.

Example:

A shop runner Mr. Zhang has a sales value of 11000 yuan (including vat) for the current month, and has sales return of 600 yuan. The applicable vat levying rate is 4%. The tax-exclusive sales value and the tax payable for the month are computed as follows;

Tax exclusive sales value = (11000 yuan – 600 yuan) / (1 + 4%) = 10000 yuan

Tax payable = 10000 * 4% = 400 yuan

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