

➤ **Q: Under what circumstances are input taxes not creditable?**

A: If a taxpayer meeting the norms for a normal vat taxpayer has not gone to the tax department for identification procedures or is unable to provide accurate tax information due to its imperfect accounting system, the competent tax department shall collect vat on its output and shall neither allow the taxpayer for input tax credit nor the use of special vat invoices.

Where taxpayers purchasing goods or taxable service have not obtained or kept the vat credit documents in accordance with the regulations or there the vat paid and other relevant items are not indicated on the vat credit documents in accordance with the regulations, the input tax shall not be allowed for credit against the output tax.

The input tax on the following items shall not be allowed for credit against the output tax:

- a. Fixed assets purchased (including the machinery, transportation tools and other equipment and tools related to production and business operation with a use life over 1 year, and the materials not mainly related to production or business operation with use life over 2 years and worth more than 2000 yuan)
- b. Goods or taxable services purchased for the use on non-taxable items (including provision of non-taxable services, transfer of intangible assets, sales of immovable assets and fixed assets in construction).
- c. Goods or taxable services purchased for the use on tax-exempt items.
- d. Goods or taxable services purchased for collective welfare or private consumption (also including the expenses on tobacco, alcohol, tea and drinks in reception).
- e. Abnormal losses of goods purchased (e.g., losses incurred due to natural disasters, bad management).
- f. Goods or taxable services purchased and consumed in the products-in-progress or finished products which suffer abnormal losses.

Where taxpayers concurrently engaged in tax-exempt items or nontaxable items (excluding the fixed assets in construction) are unable to accurately separate the non-creditable input tax, the non-creditable input tax shall be computed as:

Non-creditable input tax = total input tax of the month * Sum of tax-exempt sales value and non-taxable business turnover/Sum of all sales value and business turnover

If, however, the taxpayers use the purchased goods or taxable services, the input tax of which has been already credited, for non-taxable items, tax-exempt items, collective welfare, private consumption or abnormal losses, the relevant input tax of the said purchases should be deducted from the input tax of the current period.

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