

Value-Added Tax Taxpayer

VAT is levied on basis of the value added realized in course of sales of goods or provision of services. It is a tax popularly levied in the world. The “Provisional Regulations of the People’s Republic of China on Value Added Tax” currently effective in China was promulgated by the State Council on December 13, 1993 and put into effect on January 1, 1994.

VAT is administered by the Offices of SAT (the VAT on the stage of importation is collected by the Customs on behalf), and the revenue from it is shared between the Central Government and the local governments. VAT is the major source of fiscal revenue for the Government of China, particularly the Central Government. In 2004, the revenue from VAT is 840.45 billion Yuan, accounting for 35.8% of the State total tax revenue of the year, which is the first biggest tax in China.

The state-owned enterprises, collective enterprises, private enterprises, enterprises with foreign investment, foreign enterprises, joint equity enterprises, other enterprises, administrative units, institutions, military units, social organizations, other units, individual business operators and other individuals who are engaged in the sales of goods, provision of processing, repairs and replacement services (hereinafter referred to as taxable services) within China are taxpayer of VAT.

The following activities conducted by enterprises, units or individuals are deemed as sales of goods:

- Pass goods to other for sale on behalf;
- Sell goods on commission basis;
- Deliver goods from one establishment to the other for the purpose of sales if the two establishments are accounted on consolidated basis (except that the two related establishments are located in the same county or city);
- Use the goods self-manufactured or processed by contract as non-taxable items, collective welfare or private consumption;
- Use the goods self-manufactured processed by contract or purchased as investment by providing the goods to other enterprises, units or individual businesspersons, by distributing the goods to shareholders, investors, or by donating to others with no charge.

If a sale activity involves both goods and non-taxable labor service (e.g., sell and transport the goods), the activity is called mixed sale. The mixed sales in goods manufacturing, wholesaling and retailing (including the activities centered in goods manufacturing, wholesaling and retailing and concurrently involved in non-taxable services) are deemed as sales of goods, and are subject to VAT on the total sales revenue. Business Tax is levied in stead of VAT on the mixed sales of other enterprises, units and individuals.

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For the VAT taxpayers concurrently engaged in non-taxable labor services, the sales values of goods, taxable services and non-taxable services should be accounted respectively (hereinafter referred to as sales values). If the taxpayers fail to separately or precisely account their sales values, the competent tax authorities shall request the taxpayers to pay VAT on their non-taxable services will be the highest one.

In case of business leased or contracted to others, the leaseholders or the contractors will be the taxpayers.

For the overseas units or individuals sell taxable services in China without establishment in China, their VAT payable shall be withheld by their agents. In case of no agent, the purchasers shall be the withholding agents.

At present, the VAT revenue in China mainly comes from the State owned enterprises, collectively owned enterprises, joint equity enterprises, the enterprises with foreign investment and individual household business persons that are engaged in manufacturing industry (out of which mostly refers to tobacco production, beverage production, food processing and production, textiles, petroleum processing, chemical raw materials and chemical production, pharmaceutical production, ferrous metal smelting and extension industry, non-ferrous metal smelting and extension industry, general facilities manufacturing industry, transportation equipment manufacturing industry, electric machines and apparatus manufacturing industry, and electronic communication equipment manufacturing industry), mining and digging (mainly including coal, oil, natural gas, ferrous metal and non-ferrous metal exploitation), power generation and supply, wholesales and retails and from importation of goods.

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