

Removal of Two Approvals in relation to VAT Administration - Relaxation or Challenge?

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In Brief

- » On 24 February 2015, State Council issued a decision, reference no. Guofa [2015] No.11 (hereinafter as Rule 11), to cancel a series of administrative approval requirements. Among others, the removal of approval for VAT general taxpayer qualification and issuance of red-letter VAT invoice is intriguing and drawing much attention.

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In detail

» What is the current practice?

Currently, an approval is needed for obtaining a VAT taxpayer qualification, based on satisfactory annual sales, operation premises and bookkeeping system. The qualification allows a VAT taxpayer to adopt VAT crediting mechanism and issue VAT invoices.

Further, a separate approval is needed for cancelling any issued VAT invoices, requiring a joint application by the seller and the buyer. Once approved, the seller can issue a red-letter invoice to reduce the output VAT and the buyer to reduce the input VAT and pay VAT accordingly.

» What changes and uncertainty?

Rule 11 has removed the approval requirements for VAT taxpayer qualification and issuance of red-letter VAT special invoices, effective from 24 February 2015. Instead, the approval system is now replaced by a registration system, per a supplementary notice issued on 30 March 2015, being Public Notice [2015] No. 18, effective on 1 April 2015. Taxpayers are now held responsible for checking and meeting the criteria by themselves when they register for the VAT taxpayer qualification. The new notice also quickens the qualification effective date, either from the current month or the next month after the registration. It appears that the change from approval to registration system has streamlined and quickened the entire qualification granting process, which is a favorable arrangement for taxpayers to commence their operation.

In addition, in relation to this practice, effective on 1 January 2015, nationwide tax authorities are required to upgrade their VAT invoice system for the new VAT taxpayers approved after 1 January 2015. A buyer is required to submit red-letter invoice request via the system. If passed, the issuance notice will be forwarded to the seller's system so that the seller can issue the red-letter invoice. There are still the following uncertainties:

- Whether there will be any post-registration checking procedures;
- Whether a seller can issue the red-letter invoice and deduct the output VAT directly;
- How a current business tax (BT) payer under the BT-to-VAT reform be assessed without yet equipped with the VAT system for cross-checking.

WTS observation

- » Given the uncertainty, it is not surprising that some local tax authorities may still pursue the existing approval procedures. To avoid being trapped by regulation transition, sufficient check with tax authorities is advised, especially in adjusting the input and output VAT for red-letter VAT invoices.

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