

National tax police in place

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In brief

- » China's public security and tax authorities have launched a nationwide combat on tax crimes, especially illicit VAT practices.

Feedback

WTS – strong presence in about 100 countries / regions

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In Detail

1. Tax crime targeted

During the COVID-19 outbreak period, procedures are streamlined and reliefs offered, as expected. Yet, the cops-and-crooks wars are also accelerating. Big data shows that the tax crime rate in unusual time is far more severe than that in the usual time, causing weighty damages to the country.

On 12 May 2020, the Ministry of Public Security proclaimed a nationwide battle against tax crimes, covering VAT invoicing frauds, tax refund cheats and filing fiddles. Public security and tax departments have teamed up to wage the “One-hundred-city Battle” (in Chinese “*Bai Cheng Hui Zhan*”) to strike at tax crimes around the country.

Reportedly, these places are targeted:

- Hebei province and Shijiazhuang city;
- Chongqing city;
- Henan province;
- Zhejiang province; and
- Jiangxi province.

The campaign might affect a lot, even the innocent – e.g. taxpayers unknowingly receiving forged VAT invoices from suppliers, and creates a new wave of questioning, self-investigations, and tax audits.

2. Supreme Procuratorate’s clarification on VAT invoicing frauds

Recently, the Supreme People’s Procuratorate has issued explanatory notes to differentiate tax incompliance from tax crime in fraudulent VAT invoicing cases. It views that business operators running actual transactions involving unlawful VAT invoices should not be charged with “*fraudulently issuance of VAT invoices*” if they are not made for tax but commercial reasons, such as inflating financial performance for financing and mortgage needs, and has not led to the State’s loss of tax revenue.

WTS observation

Technology has made the fight against tax crime much more efficient, especially illicit VAT invoicing which is believed to be the most serious tax crime. On one hand, the cooperation between tax and other law enforcement authorities will not be one-off. On the other hand, companies should come to realize that an internal check on VAT practices should be made habitual, at least annually.

It is always the best practice to prepare for the unexpected, when criminal implications are concerned. VAT invoice inflows and outflows are taking place days in and days out and involve too many parties, internal and external. It is recommendable to revisit the tax risk control system to see if any enhancement is necessary against VAT invoicing risk.

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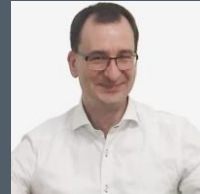
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