

## China gearing for a full e-VAT process

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#### In brief

- » Three regions in China, Shanghai, Guangdong, and Inner Mongolia, are launching a pilot program to implement a full-process digitalization of VAT e-invoicing starting from 1 December 2021.
- » It signals a possible nationwide practice soon.

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In detail

On 30 November 2021, Shanghai, Guangdong Province, and Inner Mongolia Autonomous Region have announced the **“Pilot Program for Full-Process Digitalization of VAT E-Invoices”**, with the green light from the State Administration of Taxation (SAT).

The pilot program will be launched in the said three regions to certain taxpayers starting from 1 December 2021. Further to SAT’s announcement in December 2020, the said program has pioneered further improvements. It allows taxpayers to register, initiate, issue and cancel VAT e-invoices themselves all online, and 24 hours a day for all days via an online e-invoice service platform (<https://etax.shanghai.chinatax.gov.cn>, <https://etax.guangdong.chinatax.gov.cn>, or <https://etax.neimenggu.chinatax.gov.cn>)

Under the new program, any VAT e-invoices issued electronically and carrying either the title "Special VAT Invoice" or "Ordinary VAT Invoice" will bear the same legal effects as their paper versions’.

1. Scope of application

Two groups of taxpayers are designated for the pilot program:

- Any new VAT taxpayers registered in the piloted areas after 1 December 2021;
- Any existing VAT taxpayers having access to the said online platform in piloted areas.

The local tax authorities will decide, depending on the pilot-test result, when to spread the practice throughout Shanghai, Guangdong, or Inner Mongolia.

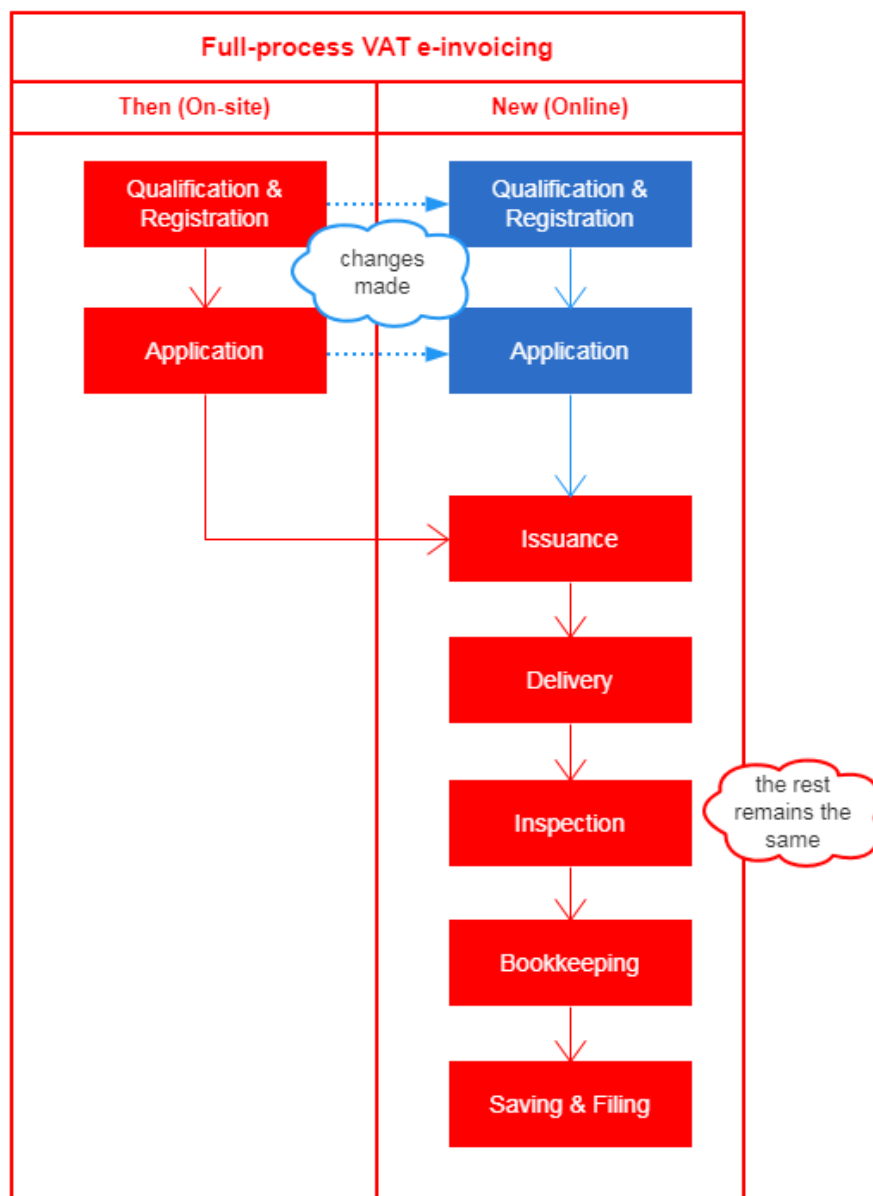
2. Format revised

The format of e-invoices has been simplified to collect only the minimum necessary information.

3. Issuance limitation

The system currently cannot yet issue any e-invoices for sales of special goods such as petroleum, rare-earth elements, automobiles (including second-hand cars), tobacco, exports, and tolls, etc.

Until such functions become available, taxpayers are asked to resort to their current VAT invoice management system for issuing e-invoices for these transactions.



#### 4. Quota setting

A VAT invoice issuer will be subject to a quota management in value terms, based on its current quota and managed as follows:

- The quota will cover the aggregate value of all invoices issued in either paper or electronic format in a month. Taxpayers should be mindful of using the two options under a set quota value; and
- At a later stage, taxpayers still have the option to apply for a higher quota, based on their business status, need, risk level, credit rating, and operation scale, etc.

#### 5. Credit offsetting

Under the pilot program, VAT input crediting involving e-invoices will be performed in two manners:

- For in-program new issuers, VAT input crediting can be recognized via the e-invoicing service platform;
- For non-program taxpayers intending to claim input VAT or tax rebates using any e-invoices they have obtained from in-program taxpayers, they should do so via the comprehensive VAT service platform.

#### 6. Correction or cancellation

The process depends on whether an e-invoice has been claimed as an input VAT credit or not:

- If not yet, it is still possible for its issuer to do a direct correction or cancellation (using a red-titled e-invoice) without the need for a recipient's confirmation in return; or
- If yes already, it requires either the issuer or the recipient to initiate the credit offset process. Upon confirmation by the other party, a "*Credit Invoice Data Confirmation Form*" will be generated, allowing the issuer to amend the e-invoice in full or in part.

### WTS China's observation

A full-process VAT e-invoicing would mean convenience, efficiency and integration of sales made and returned, all of which are conducive to a prompt and safe transaction in the following sense:

- It would better facilitate a centralized management of VAT e-invoices for financial analysis, informatize financial management, and strengthen the transparency between taxes and transactions;
- It would enhance corporate compliance, allowing real-time monitoring on every step in the cycle of VAT e-invoicing and identification of abnormality.

Although the program is still in its pilot-run stage, available only to designated taxpayers in piloted regions, SAT nevertheless signals its will to prioritize a full-process VAT e-invoicing practice throughout the country.

Enterprises are advised to consider upgrading their ERP system, in preparation for integrating the e-invoices into their transaction and invoicing systems when VAT e-invoices are fully implemented soon.

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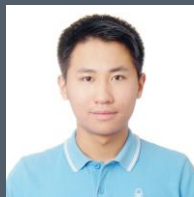
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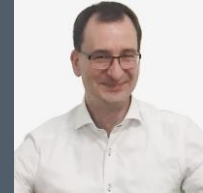


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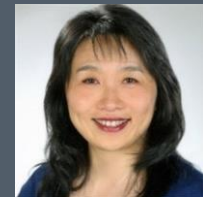


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