



Are you ready for  
the special VAT e-invoicing of China?

What CFOs and Tax Directors doing business with China must know



## Are you ready for the special VAT e-invoicing of China?

China adopted general VAT e-invoicing (e-fapiao) back in 2017 in the e-commerce, telecommunication, and public utilities sectors. After that, China launched a pilot program of special VAT e-invoicing with OFD format in a short period from 2020. Recently, Chinese tax authorities in Guangdong, Shanghai, and Inner Mongolia announced the launch of a pilot program for fully-digitalized electronic invoices (FDEIs) in selected regions from 1 December 2021. Guangdong further expanded the pilot program to a larger group of taxpayers on April 1, 2022. It is expected that the tax authorities will push the FDEIs to more taxpayers in other provinces in late 2022.

The State Taxation Administration (STA) has established a nationwide online platform to enable pilot taxpayers to issue,

deliver, and validate FDEIs at all times, free of charge. Unlike prior pilot programs for electronic invoicing (which to a certain extent have mirrored the traditional administrative process for paper invoicing), the new pilot program aims to achieve "full digitalization" for the management of invoices, which could bring far-reaching changes to the daily operations of businesses as well as to the tax administration.

The existing practice of large and mid-sized companies printing special VAT invoices in house and smaller practices processing them at tax bureaus will be replaced by paperless system over time along China's digital transformation journey. Greater compliance along the chain of tax declaration, control, collection and inspection is

surely on the way enabled by the advanced technology and determination of the tax authorities.

**CFOs and Tax Directors should be prepared for the impact on their existing procedures, ERP systems, labor force arrangements as well as the benefits rooted in the centralization of VAT invoice issuance. Or perhaps taking it to the next level - why not unlock the potential from tax shared services and supply chain alignment?**



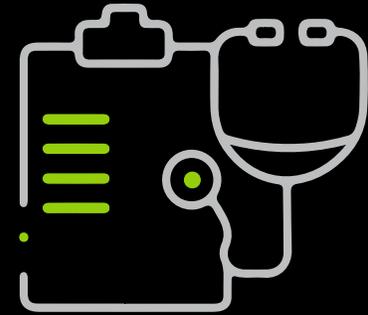
## Knowledge bytes

- VAT is administered by the State Administration of Taxation (the import VAT is collected by the customs on behalf) and is the major source of fiscal revenue in China.
- There are two major categories of VAT invoices (called "fapiao") in China – general fapiao and special fapiao with the later one eligible for VAT input credit.

# Self-diagnosis: opportunities and challenges checklist

Opportunities and challenges involved in the transition can vary given any company's unique background – from simply centralization of invoice management all the way to the leverage of big data analysis and supply chain

alignment to empower business decisions. CFOs and Tax Directors can ask themselves the following questions to facilitate a self-diagnosis of readiness level and directional needs before ironing out their next steps.



What is your assessment of the necessary changes to cope with the new requirements?

What is your appetite for tax automation to better manage invoice, compliance, electronic archiving, etc.?

What is your appetite for utilizing the e-invoice data for tax risk management?

Do you have a plan for the transition period with the co-existence of paper and e-invoices?

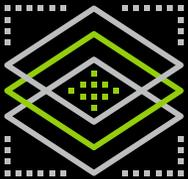
What is your appetite for consolidating the e-invoice system and ERP system to empower you to precisely locate the root cause of tax issues?

What is your assessment of your current internal control mechanisms in response to the authorities prior to their big data enablement?

Do you have a labor adjustment plan to reduce cost and increase efficiency with the transition to e-invoices?

What is your appetite for vendor selection and system implementation?

# Immediate actions proposed for CFOs and Tax Directors



Regardless of how concise or grandeur you have visualized for the transition, there are 3 immediate ways to benefit from:

1

Comb through various business scenarios to standardize the processes and data

2

Integrate internal and external resources for effective big data analysis

3

Develop a plan in advance to update the system or introduce a new digital solution

# How can Deloitte help?

As **Asia Indirect Tax Firm of the Year 2020**, Deloitte's indirect tax team in China is strong in both VAT technicalities as well as technology enabled digital solutions by our spearheading Tax Technology Consulting Services specialists. The team is constantly monitoring the development of special VAT e-invoicing for your best interest and developed a methodology to serve your varied needs. Our services include but not limited to:



## End-to-end tax operation process design and transformation consultancy services

Advisories in terms of invoicing and tax process review, optimization, personnel roles and responsibilities adjustment, tax health check and routine tax matters.



## Tax big data analysis and application services

Assistance with the usage of tax big data to achieve tax burden optimization, risk control and management, related party transactions analysis, etc.



## System solutions

A comprehensive and advanced system solution to automate sales invoice issuance, input VAT invoice verification, invoice risk control and e-archiving management.



## Routine invoicing and tax functional outsourcing service

Assistance with the issuance of VAT invoices, tax filing, and ad-hoc tax advisory as well as entire tax functional outsourcing services.

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