



The Deloitte Navigator
Your map to indirect tax in China

The Deloitte Navigator

What is the Deloitte Navigator?

The Deloitte Navigator is a tool, focused on indirect tax & Customs issues, designed to create a roadmap for companies entering emerging markets. The roadmap is created via a decision tree to identify the main critical indirect tax issues to be addressed, prioritises them and a standardised country report is created to direct businesses on the actions needed.

In principle, each new market entry triggers the same questions to the business:

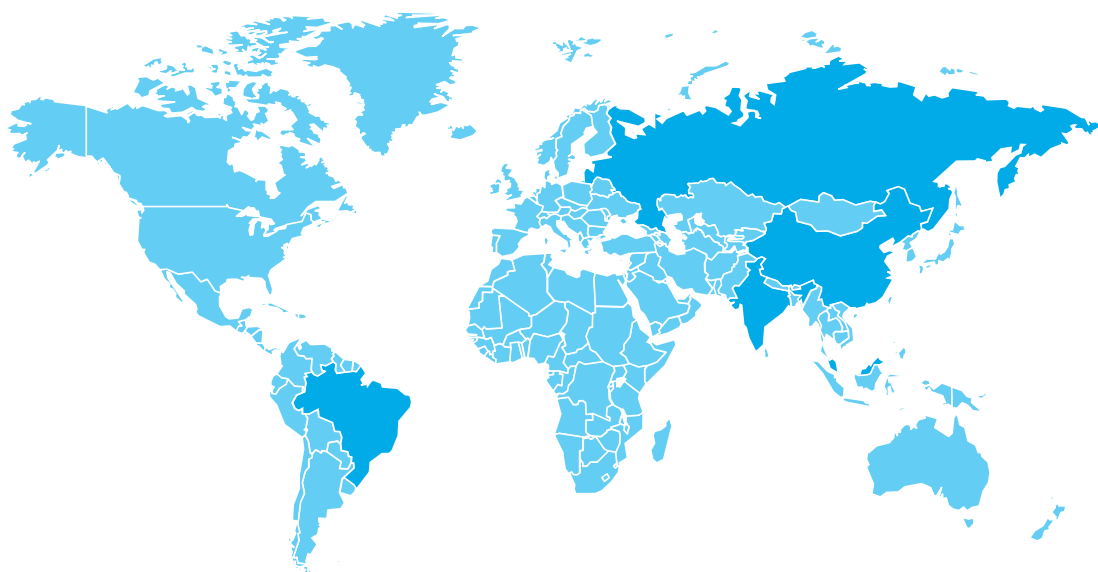
- What structure is best suited to my business needs?
- What are the tax consequences of my preferred structure?
- Should I opt for another structure that avoids negative tax consequences or increases tax advantages?

To allow businesses to decide for a structure fitting their business needs, it is of the utmost importance to identify legal requirements, tax consequences, and business incentives from the very beginning.

“The Deloitte Navigator is designed to help you navigate complex indirect tax requirements and how this can impact your decision on entering new markets”

Chosen countries

To lead businesses to have the optimum start, Deloitte started developing detailed country Navigators for Brazil, Russia, India and China because analysing indirect tax consequences for emerging markets has proven to be challenging. In our experience, the impact of indirect taxation is often underestimated, but it can have a decisive impact on business structure strategies. The Navigator will raise the questions for you to consider thereby offering you a comprehensive approach based on our local experience.



How does the Navigator work?

The Navigator works by guiding the company through the most important series of indirect tax questions to be considered when entering the market. The findings are detailed in a country report.

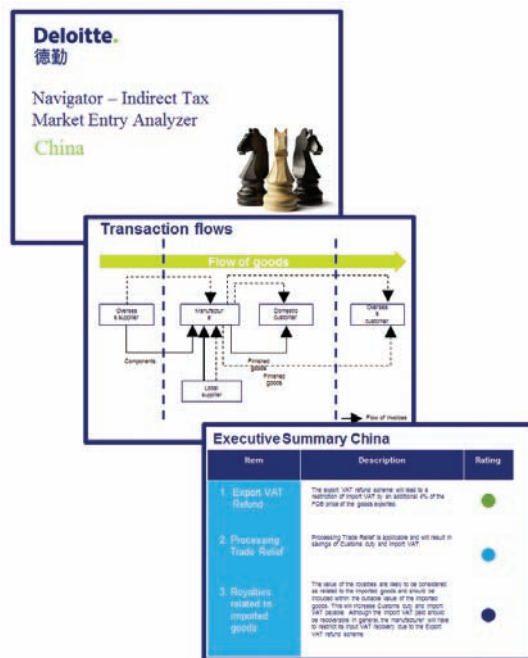
The heart of the Navigator is a decision tree, which is unique to each country designed by local experts who have assisted companies enter their markets before. The decision tree is driven by asking commercial questions rather than technical tax questions but it is structured around the basic principles of Indirect Tax so it examines. The decision tree provides you with a methodical basis to the main issues to be considered and thus, it does the thinking for you.

The decision tree begins with the basic principles of Indirect Tax by examining the nature of the supply between goods and services. For each supply, additional questions will lead to the main indirect tax consequences highlighted in the blue boxes (with the main issues then identified). The identified issues will then be color coded and divided into:

- Denotes a saving opportunity to take advantage of and implement
- Attention is required to compliance, planning and structuring, and regulatory requirements to minimise indirect tax costs
- Consequences that are complex, need attention and planning, plus weighing of options/business considerations

Deliverables

The end product from the Navigator is a report, standardised for each country, listing the ranking of the indirect tax opportunities and risks. The report will also pin point any risks with certain proposed operation model and suggest alternative solutions for that market.



“The Deloitte Navigator will allow to decide whether your chosen business model and strategy works in the emerging markets”

Navigator guide

Supply and install

Tax treatment of supply and install projects by an overseas businesses

Planning is needed at an early stage to minimise tax consequences such as VAT being applied to the whole value of the contract, double taxation and Permanent Establishment risk. In addition, regulatory requirements such as construction licenses and FOREX (foreign currency exchange) regulation need to be considered.

Supply of goods

Export of goods

Export VAT refund

The export VAT refund scheme generally applies if goods are exported. Note two points that need consideration and planning:

- The export VAT refund scheme allows exporter to recover part of their input VAT incurred as a cash refund, whereas usually input VAT incurred is only allowed to be offset against output VAT (and excess input VAT will be carried forward)
- However, the export VAT refund mechanism may leave the exporter with a restriction of input VAT recovery. Often the cost is passed along the supply chain—pricing issue

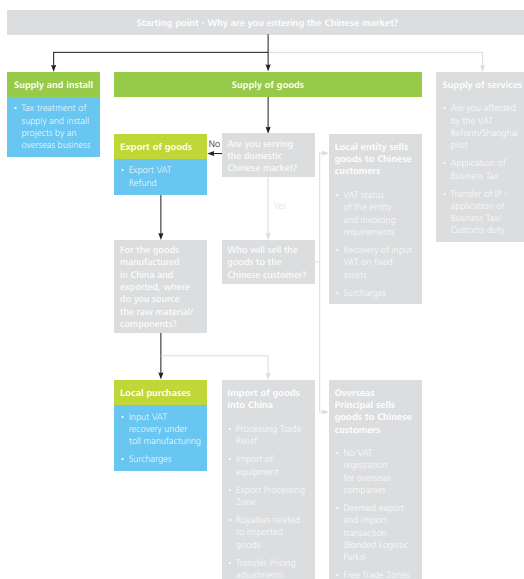
Local purchases

Input VAT recovery under the toll manufacturing

Under the toll manufacturing arrangement, where the finished goods are exported, the tolling fee, in general, is exempted from VAT and, therefore, any input VAT attributable to an exempt supply is not refundable.

Surcharges

City Maintenance and Construction Tax and Educational Surcharge will apply on top of VATable transactions and also for supplies subject to Business Tax and Consumption Tax. Tax rates are between 1% and 7% of the Business Tax amount or VAT payable. The surcharges are not recoverable. In addition, local levies may also apply.



Contacts

Deloitte Tax professionals are ready to help your business navigate an efficient entry into the Chinese market. Please call the contacts listed below to start the conversation about engaging the Deloitte Indirect Tax practice.

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As early as 1917, we opened an office in Shanghai. Backed by our global network, we deliver a full range of audit, tax, consulting and financial advisory services to national, multinational and growth enterprise clients in China.

We have considerable experience in China and have been a significant contributor to the development of China's accounting standards, taxation system and local professional accountants. We provide services to around one-third of all companies listed on the Stock Exchange of Hong Kong.

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