附件2

**Service and Management of VAT**

**under Digitalization Condition**

**----Experience from China**

**Part1: Improve the VAT system and deepen VAT reform**

Before 2012, China levied VAT on goods and business tax on services. The tax system is complex and the phenomenon of double taxation is also quite serious. In order to open up the VAT deduction chain and eliminate double taxation, China has implemented a trial replacing business tax with VAT in Shanghai since 2012.After that, through multiple rounds of expansion by regions and industries, the business tax was replaced with a VAT nationwide on May 1, 2016.Since then, The scope of China's VAT collection covers all goods and services, and the business tax has withdrawn from the historical stage.

After replacing the business tax with VAT, China has established four VAT rates: 17%, 13%, 11%, and 6%. However, there are still too many tax brackets and the tax system is still complex, which still lags behind the standard VAT system. In order to further optimize and improve the tax system, China continues to deepen the reform of VAT. In 2017, the four tax brackets was reduced to 17%, 11% and 6%;In 2018, the three tax rates was reduced to 16%, 10% and 6%, and tax refund was piloted in some industries. In 2019, the tax rate was reduced to 13%, 9% and 6%.At the same time, as the adjustment of tax rate may increase the tax burden of taxpayers applicable to the 6% tax rate, China creatively introduced the policy of phased additional deduction. In addition, China also formally established the tax refund system, and set up the framework of the incremental tax refund system.

In addition, China's VAT taxpayers are divided into general taxpayers and small-scale taxpayers. For general taxpayers, the general method of calculating tax is adopted, with tax rates of 13%, 9% and 6% applied respectively. Small-scale taxpayers shall adopt a simple method of tax calculation with a levying rate of 3%. Before May 1, 2018, the standard for small-scale taxpayers in China was 500,000 yuan for industry, 800,000 yuan for business, and 5 million yuan for pilot industries of replacing business tax with VAT. After deepening the VAT reform in 2018, the standard for small-scale taxpayers was unified at 5 million yuan per year.

Through the above reform, China's VAT system has been internationalized and modernized. At present, China is actively promoting the VAT legislation and striving to promote a neutral, fair and efficient VAT system.

**Part2：Build information platform to optimize service**

**2-1 VAT invoice management system**

The invoice management system in China is the same as that in most countries, which is called "tax deduction system by invoice". The taxpayers shall use the deduction certificate obtained from the seller to deduct the VAT tax. This system is helpful for both sides to realize mutual restriction between upstream and downstream of VAT through invoice.

At present, sales taxpayers can issue VAT invoices through the VAT invoice management system. The information system of tax authorities will collect and push the VAT invoice data to the purchaser in a "one-household" manner. The purchaser can obtain all kinds of VAT invoice information on the platform and confirm the purpose of the invoice.

The system has been in operation since 2004 and has undergone several major upgrades. Since 2004, all VAT invoices issued by general taxpayers would be uploaded to the tax authorities' database as the basis for sellers to declare VAT and buyers to offset VAT. Since 2015, China has developed and built version 1.0 of the VAT invoice management system, expanding the collection scope of VAT invoice data. All information on VAT invoices is encrypted and uploaded to the tax authorities' database, which serves as the basis for taxpayer's VAT declaration, invoice data examination and computerized accounting management.

Tax authorities launched VAT invoice management System version 2.0 nationwide in 2019.This system realizes two functions:

One is to realize the real-time circulation of invoice data among the buyers, sellers and tax authorities. In other words, tax authorities can see the status of invoice circulation and invoice management in real time through this system, which improves the refinement level of tax authorities' invoice management and provides timely and effective risk analysis and response.

The second is to achieve a household collection. The Internet will push all invoices issued by sellers to the VAT invoice comprehensive service platform of buyers. Taxpayers can check the invoices obtained in the platform "one-stop" and confirm the purposes. After confirmation, tax deduction can be declared, which improves the convenience of tax deduction for taxpayers. At the same time, taxpayers can download the detailed information of invoices in batches, and carry out batch inspection and statistical analysis. Experience has proved that the system effectively improves the level of invoice electronic management.

**2-2 Implementation of VAT e-invoice**

In order to meet the needs of economic and social development and tax modernization, China has implemented the general e-invoice of VAT since December 2015.In the past five years, it has been welcomed by more and more taxpayers because of its advantages such as convenient issuance, convenient storage, timely inspection and cost saving.

At present, China is promoting the electronic pilot work of special e-invoices, and further promoting the continuous improvement of the level of value-added tax digitalization. The carrier of invoice is transformed from paper to electronic, which realizes the electronic delivery and storage of invoice, effectively improves the efficiency of invoice use and saves a lot of social resources. We will continue to summarize the experience of pilot projects and gradually expand the trial scope of e- invoices.

**2-3 One Form Integration（OFI）for general taxpayer**

Before 2018, taxpayers had to fill out VAT returns by hand. After 2018, we have made new breakthrough in automatic declaration.

OFI system is the auxiliary system for VAT declaration. It was rolled out in June 2018.This system can achieve the function of filling in the declaration form automatically by integrating the invoice data and the management system data. Through the use of the system, more than 90% of the general taxpayers can achieve automatic declaration.

**Part 3: Digitalization of VAT Management**

**3-1 Strengthen cross-checking of declaration**

The function of cross-checking VAT returns was introduced nationwide in May 2018.It optimizes and integrates the existing information resources, compares the information of VAT tax declaration, and processes the results accordingly. The scope of cross-checking the information mainly includes VAT tax return and its attached data, invoice issuing information, deduction information of general taxpayers, etc.

If the declaration is inconsistent, the declaration system will alert the cross-checking result to the taxpayers, and provide services for taxpayers to fill in the tax return accurately. Meanwhile, the risk of false declaration will be identified and blocked in time.

**3-2 Rapid prevention and control of VAT invoice risk(RPCR)**

In order to make better use of big VAT data to carry out risk analysis ,prevent and control VAT invoice risks, China established a working mechanism for rapid response of VAT invoice risks in July 2018. The operation mode of *real-time monitoring and early warning at the two levels of the STA and provincial taxation bureau, and rapid verification and feedback by the competent tax authorities* has been gradually formed, and a nationwide risk prevention and control pattern has been gradually constructed.

By using the risk index to carry out real-time monitoring and regular scanning, and further manual verification with the suspected entities, RPCR can quickly find out the enterprises issuing false VAT invoices, and take corresponding measures. The implementation of RPCR has effectively restrained the illegal acts of falsely issuing invoices, maintained the order of tax administration, and protected the legitimate rights of taxpayers.