

China, renowned for its rapid technological advancements, is continually advancing its digital infrastructure, encompassing various aspects of the economy. Among these transformations, the adoption of electronic invoices (e-invoices) stands out as a pivotal development. This transition not only simplifies administrative processes but also carries profound implications for businesses operating within the nation. This transformation have increased a lot in recent years, driven by government initiatives aimed at enhancing tax collection efficiency and reducing fraud.

Understanding "Fapiao" and Its Role

At the core of China's tax tracking and invoicing system is the "*fapiao*" (发票), an official invoice administered by the State Taxation Administration (STA). The *fapiao* serves a dual purpose, functioning both as an invoice and a tax tracking system. Businesses in China are required to document all transactions on *fapiao*, as the system serves to combat tax evasion and ensuring compliance with trade laws. Depending on their business scope, it is incumbent upon companies to purchase the appropriate *fapiao* from the STA. In China, there are two primary types of *fapiao*:

1. **General VAT Fapiao:** These are issued as evidence of payment and do not allow for VAT deduction. They are typically used for B2C (Business to Customer) and tax-free transactions. The electronic issuance process for General VAT Invoices has been available for several years, simplifying the process for businesses.
2. **Special VAT Fapiao:** Issued by general taxpayers to customers when selling commodities or providing taxable services, this type allows for VAT deductions and is typically used for B2B (Business to Business) transactions.

These two types of *fapiao* have been available for a long time in paper form. The accountant in charge would purchase (now they are available for free from the local tax bureau) numbered papers (i.e. *fapiao*) from the local tax bureau to use them for *fapiao* issuance to be distributed by selected providers. Once the tax receipt had been confirmed by the relevant finance team, it would be sealed with a dedicated invoice seal showing the issuer's name and tax identification code. For newly established companies, there is a standard threshold of the number of VAT *fapiao* that can be issued every month, equal to 25 special *fapiao* valued at RMB 10,000 per *fapiao* and 50 general *fapiao* valued at RMB 10,000 per *fapiao*. If the company needs to invoice for a higher amount, a special application for a temporary increase shall be submitted to the tax bureau. After 3 consecutive months of the *fapiao* being fully used and within specific requirements, companies can apply for a permanent increase to RMB 100,000 per *fapiao*. With the introduction of the fully digitalized *e-fapiao* there will be a total of six kinds of *fapiao* co-existing in China during the country's ongoing *fapiao* system reforms. The six types are (as we said) special VAT *fapiao*, general VAT *fapiao*, and also special VAT *e-fapiao*, general VAT *e-fapiao*, fully digitalized special VAT *e-fapiao*, and fully digitalized general VAT *e-fapiao*.

Transition to E-Invoicing: what has changed

As early as 2020, China initiated a voluntary pilot program for e-invoicing, focusing on the Special VAT Fapiao. The system operates through the Golden Tax System, a sophisticated system designed for tax administration and storage of paper invoices, now operating in its third stage known as "Golden Tax System III and adapted for electronic issuance of certain *fapiao*. Like other VAT electronic *fapiao*, it has no invoice copies, while normal paper *fapiao* consists of the stub copy, the deduction copy, and the account-keeping copy for the *fapiao* issuers and receivers to keep and use. The fully digitalized *e-fapiao* will also look neater, with only 17 items of content: dynamic QR code, invoice number, issuance date, buyer information, seller information, project name, specification and model, unit, quantity, unit price, amount, tax rate/levy rate, tax amount, total, ad valorem and tax total (in words and figures), remarks, and invoice. As a new type of electronic invoice, the fully digitalized *e-fapiao* will have unique features:

- Taxpayers under the pilot program will not need to get the special tax control equipment (the medium) in advance to issue *fapiao*; Instead, they can issue the fully digitalized *e-fapiao* through the national e-invoicing service platform;
- Taxpayers under the pilot program will not need to obtain the *fapiao* through application to the tax bureaus; Instead, they can obtain the fully digitalized *e-fapiao* through the e-invoicing service platform, which will automatically assign a unique *fapiao* number when the *fapiao* information is generated;
- The tax authorities will determine the initial maximum amount of invoices issued by the taxpayer in a calendar month and make dynamic adjustments thereto – based on the risk level, taxpaying credit rating, actual operating conditions, and other factors of a taxpayer. The maximum invoices amount refers to the upper limit of the total invoice amount the pilot taxpayer's invoice issued within a natural month, excluding VAT. Different from traditional paper *fapiao*, the fully digitalized *e-fapiao* is not limited by the number of *fapiao* pieces or the maximum among of a single *fapiao*.

Regulatory Changes and Expansion

In October 2019, State Council published "Regulations on Optimizing the Business Environment", stating tax authorities shall step up efforts to promote the use of electronic invoices. In December 2020, Ministry of Finance amended "Measures for the Administration of Financial Instruments", endowing Special VAT e-invoices with legal equivalence to paper invoices. Some key changes include:

1. E-signatures: Replacing wet stamps and signatures.
2. E-Invoice Format: Special VAT e-invoices are issued in OFD format, and suppliers can choose various methods for providing the e-invoice to the buyer, such as email, QR codes, or other digital methods.
3. Content Requirements: Special VAT e-invoices have been made more concise, and certain layout aspects have been modified.
4. Red-Letter E-Invoice: Issued to rectify irregularities in the original invoice after registering the transaction with the STA platform



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Continued Expansion of E-Invoicing

E-fapiao issuance has expanded to more regions. According to Pagero website, his fully digitalized system commenced in early 2022 and has since been introduced in numerous provinces, with the latest additions including Xiamen, Shanghai, Chongqing, Qingdao, Dalian, Tianjin, Shaanxi, Henan, Jilin, Shenzhen, Ningbo, Fujian, and Yunnan, illustrating China's commitment to modernizing its invoicing systems, enhancing efficiency, and transparency for businesses.