

China indirect tax – efficient sourcing

 Current position	 What to do/ potential benefits	 How to proceed	 Who should consider?
<p>Global businesses are increasing their sourcing from China to meet with their business needs.</p> <p>Sourcing models vary from direct sourcing to consolidation centre.</p> <p>Price/quality/quantity of the products delivered may be different from the original order.</p> <p>Businesses may need to provide the Chinese partner with tooling and machinery.</p> <p>Chinese partner may provide warranty on its products.</p> <p>Defective parts may need to be imported, repaired and exported.</p> <p>The above activities would lead to Chinese indirect tax implications, sometimes the implications could be simple but sometimes not.</p>	<p>What to do:</p> <p>China indirect tax efficiency sourcing review is aiming to release the potential indirect tax benefits from the sourcing operation.</p> <p>Potential benefits:</p> <p>Assess the current level of indirect tax efficiency by having a better gauge of the indirect tax cost of the current operation.</p> <p>Discover potential areas where indirect tax efficiency can be improved.</p> <p>Discover potential areas of saving.</p>	<p>The 3-phase approach:</p> <p>1. Understand the current sourcing model/ operation</p> <p>To gain understanding of the transaction and materials flows with respect to the current sourcing model/operation.</p> <p>2. Indirect tax efficiency assessment</p> <p>Review and analyse the PRC indirect tax implications of the current sourcing model/ operation – qualitative and/or quantitative analysis.</p> <p>3. Indirect tax efficiency enhancement solutions identification</p> <p>Identifying any indirect tax efficient arrangements which may be applicable to the sourcing activities. The cost-benefit factors of these solutions would also be considered.</p>	<p>Businesses with significant sourcing from China. In particular, for businesses who wish to:</p> <ul style="list-style-type: none"> • Mitigate their irrecoverable VAT cost due to export • Check whether changes to the orders made (e.g., quantity, price and quality) would lead to adverse indirect tax implications • Mitigate the indirect tax cost incurred on arrangements relating to provision of tooling and equipments

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