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The Importance of Chinese Fapiao When Doing Your Accounts

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By Cory Lam

SHANGHAI, Feb. 21 – A *fapiao* in China is more than just an ordinary receipt. Contrary to other countries, where receipts are usually just used to record a transaction, in China it is also the way in which the government monitors the value added tax (VAT) paid on any transaction. Therefore, even for the most mundane tasks, like riding a bus for example, a *fapiao* should always be provided, or at least be available, at the customer's request.



*Fapiao*s can mainly be sorted into two categories – general invoices and VAT invoices. Although the two are often used interchangeably, there are notable differences between the two that consumers should be aware of. Firstly, the latter can be used for tax deduction purposes, while the former cannot. Secondly, as the VAT invoice is used for tax deduction purposes, it will contain a lot more detail with respect to the trader's information, including tax number, address, telephone number, bank account information, and other such information. Lastly, the purchase amount on a VAT invoice is usually explicitly broken down into its non-tax and tax components, while the amount shown on the general invoice is usually a tax-inclusive figure. It is therefore important to check with your accountant with regards to which type of invoice you need according to the purpose intended.

All invoices are reportable to the local tax authority. Whether a *fapiao* has been computer generated (like those printed for in-shop payments of mobile phone bills) or comes in the fixed amount prepaid format (like those you get in restaurants), it would have previously been issued by the local tax authorities. For example, machines for printing computer generated *fapiao*s can only be bought from the local tax authority, and only registered businesses will be able to purchase the standard fixed amount invoices. This ensures that all *fapiao*s are standardised, making it easier for administration and fraud protection purposes.

For the common consumer spending money in China, *fapiao*s can be used as valid proof of expenditure in the case where one might need to reclaim any expenses made, i.e. on a business trip. Sometimes foreigners are also required to provide a *fapiao* from your rented or purchased accommodations as proof of residency for visa purposes. It should, however, be noted that in China the responsibility to obtain a *fapiao* lies with the consumer as this will not always be provided freely, if at all, by the provider. For transactions of smaller amounts, retailers may offer a small discount or free giveaways in exchange for not providing a receipt. This way they would not have to declare the sale officially and effectively would avoid paying VAT on the transaction. However, by law all businesses are required to produce a receipt at the customer's request at the time of purchase. According to a spokesman of the Hubei local tax authorities, in the case where a business owner is unable to produce a valid invoice, the customer has the right to refuse payment on the spot as well as to report them to the authorities by dialling 12366 – the national tax authorities' helpline.

To combat the recent increase in counterfeit invoicing crimes, the government has revamped

the current general invoice system, with the [new general invoice format](#) coming into effect from January 1, 2011. The new system is designed to promote greater usage of these invoices, firstly by simplifying the types of invoices in the system, and secondly by widening the scope for winning prize monies via the scratch card panels on the invoices themselves to encourage more consumers to request *fapiao*s after purchases. Furthermore, consumers can now verify whether an invoice is genuine by simply contacting the above-mentioned helpline or by checking the invoice's unique barcode against records at www.chinatax.gov.cn.

*Fapiao*s are accordingly very important as manually time consuming receipts that need to be carefully monitored when preparing corporate petty cash or accounts. Misuse is rife in China, and staff submitting *fapiao*s for expense claims should be fully aware of what is and what is not an acceptable *fapiao* to support expenses to the accounts department. Additionally, during bookkeeping procedures, *fapiao*s should be carefully examined for legitimacy so as not to cause problems during end of year audits. *Fapiao*s do state what the service/product purchased was and this should match with the related entry in the company accounting books. Incorrectly identifying *fapiao*s and re-booking expenses into corporate accounts is a time consuming and expensive (you don't want external accountants spending hours correcting *fapiao* entries), so it makes sense to have them well prepared with accurate internal bookkeeping procedures from the outset. Lax use of *fapiao*s when being booked into accounts makes for headaches later on.

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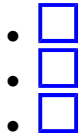
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