

Welcome to *Policy Matters*, an engaging and informative e-newsletter featuring expert insight and analysis on emerging relocation products, policies and services that can provide immediate benefit to your organization.

What Are Fapiao And Why Do They Matter?

One of the more complex elements of relocation in China is a “fapiao.” A fapiao is an official invoice issued by the Chinese Tax Bureau (but provided by the seller) for any goods or services purchased within the country. The Chinese government uses these invoices to track tax payments and deter tax evasion.

Companies relocating employees to China should be aware of the common types of fapiao, how to obtain them, how to manage them, and how to comply with fapiao requirements to avoid any tax implications.

The Chinese government taxes different types of services at varying rates depending on which location those services are rendered. This is where a fapiao comes in. The most common fapiao types include those for rental properties, utilities, education, vehicles, medical, training, and shipping. For many products, including food, books and clothes, customers pay tax at the time of purchase and there is no need to pay an extra tax in the form of a fapiao.

Here’s an example illustrating how a fapiao works: A landlord and tenant sign a tenancy agreement—the tenant in this example is the corporate client. The client pays the landlord the rental fee; the landlord takes the tenancy agreement to the tax bureau; the tax bureau calculates the required tax based on the amount of the rental; the landlord pays the tax and receives a fapiao for a specified amount; the landlord presents the client with the fapiao; the client’s finance department then keeps the fapiao on file for bookkeeping and audit purposes.

Complying with Fapiao Requirements

The previous example might appear simple, but several things can happen to complicate compliance. Generally speaking, the party who receives the payment might not voluntarily issue a fapiao or might issue a counterfeit or erroneous fapiao or even supply the wrong fapiao.

Utilizing the Example Above:

Referencing the example above, a landlord might issue a “services” fapiao instead of a “tenancy agreement” fapiao. Or, the client might not properly track, file, and process

fapiao which can invite disputes. If this occurs, it could result in the client's finance department rejecting assignee expense claims, corporate deductions denied or other tax liabilities.

To protect themselves from these challenges, companies should understand how to comply with fapiao requirements and know best practices to mitigate any associated risk. Overall, to comply with fapiao requirements, the landlord must provide a fapiao which fits the following criteria:

- Fapiao pursuant to government policy and finance regulations
- The correct fapiao, one that is relevant to the purchased services or goods
- An authentic fapiao (counterfeit documents are a risk in certain areas)
- A completed fapiao that includes all required information, within a specified period of time

SIRVA also recommends clients document clear policy, process and rights to prevent potential issues. For example, if the fapiao is provided by the landlord to the client via the assignee, the client should educate the assignee on the fapiao and its process. Any uncertainty around when a fapiao is to be issued, where it is to be sent, or who is to receive and file the document can lead to confusion and potential penalties. To avoid this in tenancy agreements, companies should develop agreements that address the following points:

- *When the fapiao should be issued.* Clients should determine when the landlord is to issue the fapiao, including the number of days before or after the rental payment is due. Clients should also state that in the event of a delay, the client has autonomy to issue the fapiao and pay the tax directly to the government and deduct the tax from the next month's rent.
- *Where the fapiao should be sent.* Clients should determine where the fapiao is to be sent.
- *Who should issue the fapiao.* Clients should not only determine who should issue the fapiao, but also who should receive and file the document.

Rely on Your Relocation Provider

When it comes to fapiaos, companies are not in it alone. Companies can rely on their corporate relocation provider to help create a fapiao policy and to track and monitor fapiao issuance.

For example, in the case of a tenancy agreement fapiao, one of the most common types of fapiaos, a relocation provider can ensure the landlord provides fapiaos for the duration of the lease term, with the correct details already included. They can also keep copies of the completed fapiaos should they be required later. Most importantly, a relocation provider can be with the client every step of the way to ensure the landlord is following the process established in the tenancy agreement and step in when needed.

Working with a relocation provider greatly reduces the burden and risk on the client and the assignee, while also ensuring compliance of an otherwise complex process.