

## **WHO IS GOING TO DISPEL THE SUSPICION OF GSX'S BILLIONS VALUE-ADDED TAX?**

Following the second report, we highlight gSX's high price in Zhengzhou to purchase office space and false VAT questions, the following we will specialize in the analysis of the VAT section. For the vast number of investors to tips the risk.

This analysis report has been fully supported by senior registered tax agents!

### **1. GSX 'S VAT TAXPAYER PROPERTIES**

According to the Circular on further clarifying and comprehensively promoting the policies on reinsurance, real estate leasing and non-academic education in the pilot project of business reform (Finance and Taxation (2016) No. 68), and the notice of the State Administration of Taxation of the Ministry of Finance on defining finance, real estate development, educational auxiliary services and other value-added tax policies (Finance and Taxation (2016) 140), general taxpayers provide educational auxiliary services, You can choose a simple tax calculation method to calculate and pay VAT according to the 3% rate of levy. In addition, the rate of levy for small-scale taxpayers in the education industry is the same as 3%.

According to the provisions of Article 17 of the measures for the pilot implementation of changing Business tax to value-added tax, the tax

calculation method of value-added tax includes general tax calculation method and simple tax calculation method. The general method of taxation is to calculate the tax payable on the basis of the difference between the output tax minus the input tax. The simple method of tax calculation is to calculate the amount of tax payable according to the product of sales and the rate of levy.

General taxpayer **refers to the taxpayer's annual sales of taxable acts of more than 5 million yuan, and does not belong to the "Pilot Implementation Measures" Article 3 of the non-registration as the general taxpayer situation.**

For general taxpayers who provide non-academic education services, they can choose to apply a simple tax calculation method to calculate the amount of tax payable according to the 3% rate of levy.

According to the size of GSX's business income, the VAT taxpayer attribute of GSX should be a general VAT taxpayer with an applicable tax rate of 6 per cent (deductible input tax) or 3 per cent levy rate (non-deductible input tax).

重要会计政策摘要 (续)

增值税

根据税法，本集团的教育服务和非教育服务应按小规模增值税纳税人实体的增值税率3%或按一般增值税纳税人实体的税率6%缴纳。

According to the contents of the GSX report file, We can confirm that GSX's main income is for education services, which is generally the student's tuition income.

**Conclusion: GSX's VAT taxpayer attribute is VAT general taxpayer.**

## **2. GSX'S TAX METHOD SELECTION**

According to the provisions of Article 18 and 2 of the "Pilot Implementation Measures for the Implementation of The Tax Conversion and Value Added Tax", **If a general taxpayer commits a specific taxable behavior prescribed by the Ministry of Finance and the State Administration of Taxation, he or she can choose to apply the simple method of taxation or the general method of taxation. However, for a specific taxable act, once the general taxpayer chooses to apply the simple method of taxation, the method of taxation shall not be changed within 36 months after the selection. GSX is engaged in education and training business, which conforms to the specific taxable behavior stipulated by the Ministry of Finance and the State Administration of Taxation. The default tax calculation method is the general tax calculation method, but it can choose the simple tax calculation method. Once the simple tax calculation method is selected, it shall not be changed within 36 months after the selection.**

According to the VAT data published in the US version of the GSX Annual report from 2017 to 2019, the VAT paid in the three years is 6.423 million yuan, 26.202 million yuan and 134.302 million yuan respectively, totaling more than **160 million yuan**. The tax burden rate is as high as **6%**, which is more than double the tax paid according to the simple tax calculation method!

	For the Year Ended December 31,			
	2017	2018	2019	
	RMB	RMB	RMB	US\$
	(in thousands)			
<b>Net revenues</b>	<b>97,580</b>	<b>397,306</b>	<b>2,114,855</b>	<b>303,780</b>
Add: VAT and surcharges	6,423	26,202	134,302	19,291
Add: ending deferred revenue	46,307	272,041	1,337,636	192,139
Add: ending refund liability	2,475	11,167	54,567	7,838
Less: beginning deferred revenue	29,848	46,307	272,041	39,076
Less: beginning refund liability	1,094	2,475	11,167	1,604
Less: deferred revenue from the acquisition of Shanghai Jinyou Education Technology Co., Ltd.	—	2,806	—	—
<b>Gross billings (non-GAAP)</b>	<b>121,843</b>	<b>655,128</b>	<b>3,358,152</b>	<b>482,368</b>

However, unlike GSX, New Oriental and Good Future have opted for a simple tax with a 3% rate. Although we cannot obtain the New Oriental, good future VAT tax information, but according to its annual report disclosed, you can see that the New Oriental, Good Future from 2016 to choose the 3% collection rate of the simple tax method, that is, the next 36 months, the New Oriental, good future are applicable to the 3% levy rate, because can not offset any input tax, New Oriental, good future VAT negative rate is also the same as 3%, the tax rate of the two is less than GSXGX.

#### **New Oriental ( EDU ) :**

According to the EDU 2019 annual report, confirmed that EDU chose a 3% simple levy rate.

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除我们的中小学外，我们在中国的运营实体应按各自净值的3%至16%（或从2019年4月1日开始为13%）的不同税率缴纳**增值税**。收入。根据财政部和国家税务总局《关于进一步明确不动产再保险政策的通知》，我们提供教育服务的**经营单位必须遵循简单的增值税征收方式，并自2016年6月起申请3%的增值税率**。物业租赁和非学术性全面推广以**增值税代替营业税的试点计划或68号文的教育**。**增值税**被报告为在产生时从收入中扣除。68号文及其后的相关实施措施和规则是相对较新的，对本通知及其实施措施和规则的解释和执行存在不确定性。

## **New Oriental is taxed at a rate of 3%.**

### **Good future ( TAL ) :**

According to the TAL 2019 report, confirm that TAL is a 3% VAT rate.

自2016年5月起，根据财税[2016] 68号令，作为一般**增值税**纳税人的非学历教育服务提供者可以选择简单的**增值税**征收方法，并申请3%的**增值税**率。本集团原先需缴纳营业税的学校现在须缴纳3%的**增值税**。

## **TAL is taxed at a rate of 3%.**

That is, if GSX and EDU, TAL choose the same 3% simple tax method, GSX VAT expenditure between 2017-2019 can be reduced by 160 million yuan , 50% , 80 million yuan, and GSX can apply for change tax reduction at any time, but it has not changed!

**Conclusion: The VAT taxpayer of GSXGSX is a general VAT taxpayer..**

### **3. GSX AND SWISSVAT DIFFERENCES**

**Since the beginning of this year, GSXGSX has been reported by four short-sellers at home and abroad, saying that its income has falsely increased by 70% and 900%.**

**Similar to the Luckin coffee, also after being shorted, self-explosion false increase in revenue of 2.2 billion yuan.**

A few days ago media reports, Luckin coffee financial fraud facing criminal liability, while the State Administration of Market Supervision and the Ministry of Finance has conducted an investigation into Luckin Coffee, has mastered a

lot of evidence of fraud, in the tax aspect of Luckin coffee to make this fake thing true, for **the false increase in transactions paid taxes.**

According to the relevant provisions after the reform, the taxpayers who provide catering services sell food and takeaway food, are paid value-added tax in accordance with the catering service, of which the general taxpayer, the applicable 6% tax rate.

Is this to say that Luckin Coffee in the false increase in revenue of 2.2 billion yuan at the same time, for the inflated income to pay  $22 \times 6\%$  of the value-added tax of 132 million yuan?

The answer is, no!

Luckin coffee's annual operating income is well over 5 million yuan, is a general taxpayer, catering service industry is not the **Ministry of Finance and the State Administration of Taxation specific taxable behavior, only the general tax method, that is**, according to the amount of sales tax less the difference in the amount of tax amount calculated taxable amount.

The actual payment of VAT tax amount by Luckin Coffee has not been announced to the society, but due to the design of the VAT system, the actual tax rate of Luckin Coffee can be done very low by illegal means.

The items that Luckin Coffee can be used to deduct the input tax are: coffee beans, coffee machines, pure water, fruit juice, packaging materials, freight, etc., Luckin Coffee can be offset by false raw materials transactions vat invoices, such as false purchase of 1 billion yuan of coffee beans (roasted

beans), fruit juice finished products, packaging materials, etc. You can deduct 130 million yuan input tax, that is to say, in the false increase of 2.2 billion yuan of revenue sales tax 132 million yuan at the same time, as long as the simultaneous false increase of 132 million or even 150 million input tax amount, Luckin coffee in the current period should be reduced to 0, or even negative number, that is to say, its current tax rate can be done 0!

Internal documents disclosed by the news media also confirmed the speculation that a procurement employee named Lynn Liang processed more than \$140 million in raw material payments, including juice, distribution and human resources services. But according to people familiar with the matter, the man does not exist.

This is the secret of Luckin Coffee's simultaneous vat "pay" for inflated revenue!

So assuming that GSX will also increase its operating income by \$2 billion between 2017 and 2019, will GSX not buy a "single" for the fake increase in revenue, as Swiss did?

The answer is still, no!

Similarly, to the general tax method, the deductibles for Rissy Coffee and GSX are:

**Luckin coffee:** roasted or unbaked coffee beans, coffee machine, pure water, packaging materials, freight and so on;

**GSX:** Office supplies, water, electricity, teaching materials, freight, communication line rental and so on.

As can be seen from the two deductible items, GSX, as an education and training industry, can hardly make up large purchases of large-scale raw materials, and its annual report data also shows that the tax burden over a three-year period is more than 6%, meaning that GSX, although the general tax method, but almost no input tax deduction.

**Conclusion:** Luckin coffee is a low-cost way to falsely open VAT invoices to pay for false income, the actual tax burden rate is very low, and GSX false income increase can not take a similar approach to achieve low tax burden, it can only take another way to prove the authenticity of income - false tax data, false increase in the value-added tax paid!

#### 4. **HOW GSX AVOIDED REGULATORY REVIEW**

Why is GSX so blatantly lying vat data overseas that it is unregulated?

Does the domestic tax authorities care?

For many investors, cannot understand the GSX vat increase phenomenon, many people raised the above questions. Unfortunately, this is precisely the current regulatory loophole in the general stock market.

As we all know, many enterprises in China have two sets of accounting phenomenon, a set of their own, a set of reports to the tax department, and the stock may exist three sets of accounts, in addition to these two sets of

accounts, there is a third set of accounts, specifically for overseas regulatory agencies and investors to see.

On the one hand, due to the differences in accounting standards at home and abroad, there are some differences in the internal and external statements themselves, the Chinese stock intends to use this difference, wipe the edge ball, regulate income, whitewash profits.

On the other hand, overseas regulatory authorities are unable to conduct audit and inspection of China's general stock, and the domestic tax collection and administration law does not provide that overseas listed enterprises must submit overseas statements to the domestic tax authorities, to GSX for example, its parent company Beijing Baijiahulian Technology Co., Ltd. can report 2019 operating income to the domestic tax authorities for 200 million yuan, while the U.S. SEC declared operating income of 2.2 billion yuan, two sets of accounts two sets of statements, non-interference, non-impact, that is, the Chinese stock can be a grand place to lie overseas, bragging, false performance, false tax increase, the domestic tax department is not aware of!

**Conclusion:** The supervision of China's general stock by the domestic tax department is still in the blank space.

## 5. THE CHOICE OF THE TRUTH TO SOLVE

Next, I would like to invite Chairman Chen Xiangdong of GSX, State Administration of Taxation, Beijing Taxation Bureau and Haidian Branch of Taxation to respond.

**What is the actual amount of VAT paid by GSX in 2017-2019?**

A: 166 million Yuan B:83 million C: 16.6 million D:1.66 million

**Option answer interpretation:**

The less tax GSX actually pays, the more revenue it has inflated!

**According to a person familiar with the matter, GSX** paid less than 10 million yuan in VAT in total in **2017-2019!**

**Recommendations:**

- i. First, the domestic tax authorities improve the supervision system and require overseas listed enterprises to submit their reports to the foreign regulatory authorities at the same time to the domestic tax authorities.
- ii. Second, in order to protect their legitimate interests, the majority of investors have submitted requests for value-added tax inquiries to the State Administration of Taxation, Beijing Municipal Taxation Bureau and Haidian Taxation. The relevant tax departments should publish the true tax information of GSX in order to dispel investors' concerns and effectively protect the legitimate rights and interests of domestic and foreign investors.

iii. Third, it is hoped that regulators will take the initiative to intervene in the investigation, fill the regulatory gap, effectively protect the rights and interests of investors, safeguard the image of Chinese enterprises, and do not let luckin, GSX and the like discredit the vast number of Chinese enterprises.



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