



VAT reform to benefit foreign firms, too

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The overall tax burden on enterprises operating in China will be lower as a result of the value-added tax (VAT) reform. Experts said that while businesses in many services sectors will directly benefit from it, manufacturing firms will be better off as their purchased services are now deductible.

In particular, businesses in the middle of a long supply chain will be the biggest beneficiaries, said Li Wanhai, a businessman based in Henan Province in central China.

Gao Liqun, head of Deloitte's indirect tax group in eastern China, said foreign businesses operating in China will generally have a lower tax burden and those outside China may profit from the reform as they are able to negotiate better deals when doing business with Chinese firms.

#### ENTREPRENEURS PLEASED TO SEE VAT REFORM

Many entrepreneurs are thrilled at the news of the **VAT reform**. Cheng Yue, investment director at InnoSpring, an incubator services provider, said the reform is beneficial to startups and their service suppliers. InnoSpring provides services such as mentoring, workshops, and access to venture capital, angel investment and physical space.

"Companies, startups in particular, hesitated to purchase services. The VAT reform encourages outsourcing of services, reducing the burden on startups and allowing the services industries to grow," Cheng said.

Partly thanks to efforts to streamline government procedures and improve investment support, China saw a record startup boom in 2015, with 4.44 million new companies registered, up 21.6 percent year on year.

#### BROAD RANGE OF SERVICES SECTORS TO BENEFIT

The last four services sectors included in the VAT reform represent a fairly big proportion of the overall economic activities.

Consumer services, for instance, cover a broad range of services meeting the needs of daily life, including education, health care, sports, tourism, entertainment, catering and accommodation, among many others.

The services sector accounts for slightly more than 50 percent of the Chinese economy and is growing at a faster pace than the manufacturing sector, driving China through a much-needed economic transition.

"China is still a developing economy and the services sector is not very developed. The reduced tax burden will help grow it," Gao said.

#### TRADITIONAL VAT PAYERS ARE WINNERS, TOO

Gao said many manufacturing firms that had been paying VAT are big winners, too, as the services they purchase, such as financial services, real estate rental and sales services, are now deductibles.

Likewise, Internet startups will be enjoying more deductibles also. Hotel expenses, for instance, now fall in the VAT category, meaning that the managers' hotel fees and air tickets from business trips are deductible. The overall tax costs for products and services are bound to drop after the reform, making them more competitive. The producers of such services and products, therefore, will have more resources to invest in

research and development.

#### FOREIGN FIRMS SET TO BENEFIT, TOO

Gao said foreign businesses in China's services sector, like local enterprises, now have a lower tax burden, while foreign manufacturing firms enjoy the benefit of having more deductibles when paying tax. Moreover, foreign buyers of Chinese services and products may negotiate better prices as the lighter tax burden will lower the costs of their suppliers, and certain cross-border services are subject to zero-rate. "Even foreign suppliers of services to Chinese companies may get opportunities to negotiate better deals, as their Chinese buyers can list such purchased services as deductibles," Gao said.

Experts said the VAT reform will make the Chinese market more attractive.

"As China grows in power and influence with an ever-expanding market, the country has become more attractive to startups," said Rani Jarkas, chairman of Cedrus Investments.

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