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After four years of a pilot run, the Ministry of Finance (MOF) and the State Administration of Taxation (SAT) issued Caishui [2016] No. 36 (Circular 36), which provides detailed implementation guidance on the further rollout of the Value-Added Tax (VAT) reform to the last four major industries that were not already covered – construction, financial, lifestyle and real estate – as well as modifications to the current VAT rules for industries already covered in the previous phases. The business tax (BT) was completely phased out and replaced by VAT from 1 May 2016.

Construction & real estate – 11% VAT rate (3%/5% for simplified method)

This industry has great importance for Mainland China's economy. In general, Circular 36 allows for the deduction of subcontracting fees and cost of land use when calculating taxable income. As a transitional measure, taxpayers of certain projects may choose the simplified method of taxation.

In practice, it is relatively difficult for the construction companies to pass on the additional VAT cost (tax rate increase from 3% to 11%) to their customers, who are generally real estate developers, and obtain input VAT deductions for labour and materials costs. This may, in the short run, impact the profitability of these companies which therefore should accurately forecast the eligible input VAT deduction and re-assess suppliers with the focus not merely on pricing but also cost control. Tax clauses should also be added in business contracts in order to avoid any unnecessary disputes.

Real estate development businesses generally have a long investment period, complicated operating structures and huge financing requirements. The transitional measures provided under Circular 36 should help stabilize the tax burden of the taxpayers. However, since no input VAT deduction will be available for the labour and interest costs (the majority of the development costs), the companies' tax costs may increase in the long run. Nevertheless, having considered the current property market situation in China and the expected return from investments in real estate, the input VAT deduction policy (see below) may to a certain extent benefit the sales of commercial properties.

Financial services – 6% VAT rate

China will become the first jurisdiction to subject the financial services sector to VAT.¹ The banking industry, in particular, will face a big challenge. Circular 36 retains certain fundamental tax exemptions currently available under the BT regime. As input VAT that is incurred for fees charged by the banks for providing different types



of services to the corporate customers and inter-banks is deductible, there will likely be a huge increase in the demand for the issuance of VAT invoices. Additionally, since no input VAT deduction will be available for loan interest and related fees, for those companies which are relying heavily on loan financing, they may face an increase in borrowing costs.

Lifestyle services – 6% VAT rate

For this sector, the majority of the policies under the existing BT policy have been adopted in Circular 36, for example with the calculation of taxable income and tax exemption treatments. General VAT payers may reduce the overall tax costs by claiming input VAT. Since a variety of services are included in this sector and the operations may cover different types of businesses and locations, management would need to exercise more strin-



VAT Reform Concludes with Final Stage

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gent control at the group level in terms of issuance of invoices and VAT compliance formalities.

Customers and suppliers in the four industry sectors may also directly or indirectly benefit from the VAT reform. For example, input VAT can be used to reduce tax costs. Also, regarding the acquisition of real estate properties, a deduction of input VAT over two years is granted under Circular 36. This new policy will significantly reduce the tax burden of the relevant taxpayers.

This concluding stage of VAT reform will no doubt bring benefits to businesses as a whole. However, having considered the increasing complexity of businesses and continuously changing environment, there is a higher demand for tax compliance. Taxpayers need to formulate adequate management and implementation guidelines and control risks in a systematic way. At the same time, they need to communicate timely and effec-

tively with the tax authorities to understand the different requirements.

In 2014, the VAT pilot reform resulted in a tax reduction to more than 95% of the relevant taxpayers (approximately RMB89.8 billion). Other taxpayers also benefited from the input VAT deduction, which reduced approximately RMB100 billion in taxes.² It is therefore reasonable to assume that for the four newly added industry sectors, consisting of almost 10 million new taxpayers, this final stage of reform will lead to further reduction of their tax burden.

Opportunities come with challenges. With these four industry sectors being covered by the VAT regime from 1 May 2016, the chain of VAT deduction should be complete and double taxation within the supply chain should be eliminated. The VAT reform will have a significant impact on all businesses operating in China. 🌸

經過四年多的試點探索，財政部和國家稅務總局近日發布財稅〔2016〕36號檔（以下簡稱36號文），明確了最後納入增值稅範圍的四大行業——建築、金融、生活服務和房地產業，並修訂了現行適用於其他行業的規定，標誌著增值稅將於2016年5月1日起全面替代營業稅。

建築及房地產業—適用稅率為11%（簡易法適用3%或5%）

建築和房地產業在整個國民經濟中佔有重要地位。整體而言，36號文一方面允許相關納稅人支付的建築分包款和土地出讓金從銷售額中扣除，另一方面制定過渡期政策，允許對某些項目選擇簡易計稅方法。

實務上，建築業較難通過價格調整把額外的增值稅負轉移到下游，即房地產開發商，而且人工、材料等費用也較難取得增值稅專用發票進行抵扣，估計短期內營改增將對企業利潤帶來壓力。因此，建築企業在投標時應對未來專案施工過程可取得的進項稅額進行預測，並評估供應商的增值稅納稅人狀態，而非純粹著眼於採購價格的高低，而是綜合考慮營改增帶來的成本負擔。在合同方面，還應注意闡明涉稅條款，避免不必要的糾紛。

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無疑，是次營改增的全面推開是一大利好因素，但考慮到當前經濟業態的複雜多變，營改增對稅務合規管理的要求更高。

針對房地產企業開發週期長、資金需求大、複雜化等特點，36號文制訂的過渡政策應可在短期內維持稅負平衡。長遠來看，由於房地產開發成本中佔大部分的人工、利息支出沒有進項稅額抵扣，未來稅負或會增加。儘管如此，考慮到目前內地房地產市場的走勢及不動產投資帶來的保值增值效果，不動產抵扣政策（見下）或在一定程度上促進商業房地產的銷售。

金融服務業—適用稅率為6%

中國將成為全球首個對金融服務業徵收增值稅的國家¹，銀行業尤其面臨較大的挑戰。36號文基本保留了營業稅下的免稅優惠，新制度下企業客戶和金融同業支付各類服務費用所對應的進項稅仍可以抵扣，故此或出現大量索取增值稅專用發票的情形。此外，因企業貸款利息及費用支出對應的進項稅不得抵



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扣，對於以貸款為主要融資渠道的企業來說，融資成本或會有所增加。

生活服務業—適用稅率為6%

大部分營業稅政策，如應稅銷售額的計算方法及免稅優惠，36號文將繼續沿用。生活服務業一般納稅人可獲得進項抵扣，因此成本也可能得以降低。由於涉及行業廣泛，對於大量跨業態、跨地區經營的企業，不同的服務將對應不同的開票處理，不同區域成員主體的增值稅合規事項需要更多集團層面的協調。

上述四大行業的上下游企業也可從是次營改增擴圍中直接或間接受益。例如從供應商獲得可抵扣的進項稅額，從而降低自身稅負。特別是對於購進不動產的企業，36號文正式規定相關進項稅額抵扣期間為兩年，這將大大降低相關企業的稅負。

無疑，是次營改增的全面推開是一大利好因素，但考慮到當前經濟業態的複雜多變，營改增對稅務合規管理的要求更高，納稅人需建立一套完善的增值稅管理規範和操作指引，通過系統化的手段控制風險，並與稅務機關時刻保持有效的溝通。

2014年，營改增為超過95%的試點納稅人減少了約898億元的稅負，而原增值稅納稅人亦因進項稅抵扣額的增加而減稅約1,000億元²。有理由相信，對於新增四大行業將近1,000萬的試點納稅人而言，還有更大的減稅空間。

機遇與挑戰並存。隨著四大行業於2016年5月1日起納入增值稅範圍，增值稅抵扣鏈將徹底打通，消除供應鏈中的重複徵稅。這對於所有在中國營商的企業來說，無疑具有重大的意義。✿

1 <http://wallstreetcn.com/node/234553> 「營改增」5月收官戰：5000億紅包花落誰家

2 <http://www.chinatax.gov.cn/n810341/n810780/c1481359/content.html>
新華網：營改增去年累計減稅1,918億元