

Discussion on VAT and "VAT Reform"

Xiayu Gao

Xi'an Polytechnic University, College of Management, Xi'an, Shaanxi, 710000, China

ABSTRACT

Value-added tax and business tax have attracted much attention as the two main taxes in China. This article is composed of three parts: the current situation of VAT, the future development trend of VAT and its corresponding reasons, and the improvement process of "replacing business tax with VAT" and its impact on the economy and society.

KEYWORDS

VAT; Replacing business tax with value-added tax; Effect; Enterprise; Paying taxes

1. THE CURRENT STATE OF VAT

What is VAT? - In short, value-added tax is a kind of turnover tax levied on the value-added amount generated by goods and services in the process of circulation.

According to the provisions of China's value-added tax law, value-added tax is a kind of turnover tax levied on units and individuals that sell goods or processing, repair and repair services, sales services, intangible assets, immovable property and imported goods within the territory of China, and take the value-added amount of goods, services, services, intangible assets and immovable property and the amount of goods imported as the basis for taxation.

There are three types of VAT: income-based VAT, consumption-based VAT, and production-based VAT, which is currently used in China. There are two forms of VAT invoices, namely: ordinary VAT invoices and special VAT invoices, the main difference between them is that special invoices can deduct input tax. Enterprises are most concerned about the VAT rate, because this directly determines the size of the tax borne by the enterprise, China's current VAT is a proportional tax rate, general taxpayers according to different taxable items according to 13%, 9%, 6% of the three tax rates to pay taxes, 3% and 5% of the two levy rates are the tax rates of small-scale taxpayers when they declare taxes. At present, due to the existence of various taxable behaviors, general taxpayers have different VAT rates when paying VAT, which is summarized in the following table:

Table 1. Different VAT rates

Sales and import of goods	Goods refer to tangible movable property, including electricity, heat and gas	13%	
Sale of intangible assets	Intangible assets are divided into: (1) Technology, trademarks, copyrights, goodwill (2) The right to use natural resources, including the right to use land, the right to use the sea area, the right to prospect, the right to mine, the right to take water and the right to use other resources (3) Other equity intangible assets, including the right to operate infrastructure assets (e.g. the right to operate expressways)	6%	
Sale of real estate	Immovable property is divided into: (1) Buildings (2) Structures, including roads, bridges, tunnels, dams and other buildings	9%	
Sales of processing, repair and repair services	(1) Processing refers to the business of consignment processing of goods, that is, the entrusting party provides raw materials and main materials, and the consignee manufactures the goods and collects processing fees according to the requirements of the entrusting party (2) Repair and repair refers to the business of entrusting the repair of damaged and non-functional goods to restore them to their original condition and function.	13%	
Sales services	Transportation Services	Including land, water, air and pipeline services	9%
	Postal service	It refers to the basic postal service activities provided by China Post Group Corporation and its affiliated postal enterprises, such as mail delivery, postal exchange and confidential communication	
	Telecommunications services	(1) Basic telecommunications services (2) Value-added telecommunications services	
	Construction services	Engineering, installation, repair, decoration, and other construction services	
	Financial services	Loan services, direct charge financial services, insurance services, transfer of financial products	6%
	Modern service	R&D and Technology, Information Technology, Cultural Creativity, Logistics Assistance, Leasing, Assurance Consulting, Radio, Film and Television, Business Assistance, Others	
	Life services	Culture and sports, education and medical care, tourism and entertainment, catering and accommodation, residents' daily life, and others	

The VAT rate is constantly being adjusted in the process of use, for example, from April 1, 2019, China has reduced the VAT rate on imported goods. The value-added tax burden of import enterprises was reduced by about 225 billion yuan, and the tax burden of consumers was reduced by 1.35 billion yuan, which completely ignited the vitality of the market. It can be seen that at present, value-added tax occupies a unique position in China's market, and at the same time has some important roles, as follows: It is conducive to ensuring the steady growth of fiscal revenue, promoting the development of professional cooperative production and the rationalization of production and operation structure, and promoting the development of foreign trade.

2. THE DEVELOPMENT TREND OF VAT AND THE REASONS FOR IT

2.1. The Identities of the Taxpayers Are Combined Into One

In China's current value-added tax system, taxpayers are divided into small-scale taxpayers and general taxpayers. The VAT law stipulates that it is impossible for small-scale taxpayers to reduce taxes, so in fact, the tax burden of small-scale taxpayers is much higher than that of general taxpayers, so small-scale taxpayers do not want to buy goods from general taxpayers, so that the VAT chain cannot be extended accordingly. Therefore, with the continuous improvement of China's value-added tax system and continuous reform and change, it is imperative to integrate the identity of taxpayers.

2.2. Consolidation of Tax Authorities

Nowadays, China's tax collection and management system is divided into two types: national tax and local tax, which effectively increases and guarantees the central government's fiscal revenue, so that the country's overall ability to regulate has been improved, and at the same time, it inevitably increases the cost of this aspect. During the period of entering the pilot of "replacing business tax with value-added tax", the business tax revenue of the pilot place that originally belonged to it still belonged to the previous place after becoming value-added tax, and the tax entered the place where it should be. This will lead people to misunderstand that although the VAT reform is the same as VAT on the surface, it is still different in essence, which is contrary to the neutral principle of VAT. This brings a turnaround to the consolidation of tax authorities. Because after the scope of VAT is expanded, if it is distributed to the national tax authorities, then the local tax authorities will face the possibility of being "isolated". Therefore, with the development of VAT, the consolidation of tax authorities will also become a major trend.

2.3. Adjustments to the Allocation of Tax Sources

The situation that the tax proportion of VAT has been greatly increased has occurred after the "VAT reform", which has led to the situation of "one tax dominates". The place where VAT is paid is different from the place where VAT is paid, so that a large number of investment is attracted and at the same time, certain measures are used to set up obstacles, in order to prevent goods from other places from flowing into the region. At the same time, it is not conducive to the distribution of commodities and logistics across the country, and it hinders the formation and improvement of the national unified market. Therefore, in order to take care of the tax interests of the place where goods are consumed, it is imperative to adjust the allocation of VAT tax sources.

2.4. Expand the Scope of VAT Invoices

After the "VAT reform", the VAT chain has been extended, and although the VAT can be deducted after the "VAT reform", some tolls cannot obtain VAT special invoices. In some service industries, on the contrary, these expenses account for a relatively large proportion of service costs, and this part cannot be deducted by special VAT invoices, which will increase the burden on enterprises. Therefore, in the subsequent VAT reform, increasing the scope of issuance and use of VAT invoices has also become a development trend.

3. THE DEVELOPMENT PROCESS AND IMPACT OF REPLACING BUSINESS TAX WITH VAT

As we all know, business tax and value-added tax are the two most important taxes in China. According to the economic development situation, the business tax is gradually changed to value-added tax, referred to as "replacing business tax with value-added tax". So what is replacing business

tax with VAT? -- Items that were previously paid through business tax are now paid through VAT, which reduces the problem of double taxation. Especially for enterprises, the business tax is changed to value-added tax, which greatly reduces the tax burden of enterprises.

3.1. The Improvement Process of "Replacing Business Tax with Value-Added Tax"

The VAT reform can be smoothly promoted across the country, and there are three major stages that are indispensable.

3.1.1. Phase 1

In November 2011, with the approval of the State Council, the State Administration of Taxation and the Ministry of Finance jointly issued a pilot plan for replacing business tax with value-added tax. The business tax, which has been in place for more than 60 years, will be gradually changed to VAT, which is obviously a good thing for most businesses. Since January 2012, Shanghai, as the first place to start replacing business tax with value-added tax, has already taken the lead in some modern service industries and transportation industries to become pilots of the business tax to value-added tax. The pilot industry is also known as Shanghai's "1+6" industry. From the beginning of August 2012 to the end of December 2012, 10 provinces and cities will be included in the pilot scope of the "VAT Reform" during this period, and the "VAT Reform" system will be promoted to a greater extent.

3.1.2. Phase II

On August 1, 2013, China's pilot projects include transportation and some modern service industries. Subsequently, other types of taxable items have also been added to the pilot scope of the "VAT Reform", such as the production, broadcasting, and distribution of radio, film and television works. According to rough estimates, in 2013, enterprises in all pilot areas of the "business tax reform" will reduce their tax burden by about 120 billion yuan. In addition, starting from January 2014, the pilot scope of the business tax to value-added tax will also appear in the railway transport and postal service industries. So far, the transportation industry has all joined the ranks of replacing business tax with value-added tax.

3.1.3. Phase 3

On March 18, 2016, the State Council held an executive meeting, at which it was approved that the pilot project of replacing business tax with value-added tax will be fully launched in China from May 1, 2016. Therefore, 2016 is known as a big year for tax cuts, and it is predicted that the tax burden on enterprises will be reduced by more than 500 billion yuan. The end of the VAT reform will also end with the end of 2016. When the pilot project of replacing business tax with value-added tax was fully launched, the first enterprise to declare tax payment was born in Xicheng District, Beijing, and the first tax declaration period was successfully opened. On October 30, 2017, the executive meeting of the State Council decided to repeal the laws and regulations related to business tax, which means that the 60-year-old business tax has officially withdrawn from history.

3.2. Impact on the Economy and Society

When China implemented the system of "replacing business tax with value-added tax", the problem of double taxation of value-added tax and business tax was avoided to a large extent, and it can be said that China's tax system was improved and improved to a certain extent. The VAT reform has had a positive impact on the tax on real estate and intangible assets, as well as on goods or services. At the same time, it is conducive to the expansion and development of related enterprises, and the internal economic structure has also been optimized accordingly. All of the above influences can promote the healthy development of China's economy and society. To sum up, the positive impact of the VAT reform on the economy and society can be summarized from two aspects.

3.2.1. Positive impact

The economic structure has been improved, which has reduced the amount of tax revenue, indicating that the government has achieved the purpose of preferential taxation through tax reform. Looking at the essence of the phenomenon, the implementation of the "VAT reform" can be regarded as indirect economic support from the state to enterprises or individuals, thereby reducing the tax burden of enterprises or individuals. Through this "reinforcement", the profits of the enterprise can be improved, and the income of the individual can be increased in disguise, which further promotes the good development of the enterprise and encourages the individual to improve his own ability. From another point of view, the implementation of the "VAT reform" is actually the state's macroeconomic regulation and control of the social economy, which promotes the development of the enterprise economy and ensures the harmonious and stable development of the country's social economy.

From the perspective of the industry, the "VAT reform" provides convenient conditions for the more professional development of the service industry, so that the service quality of the service industry can be improved at a visible speed, so as to increase the competitiveness of the industry and expand the scale of enterprises. In this way, we will provide more employment opportunities for society, increase the income of the masses, and increase the proportion of labor income in the gross national product, so as to balance and distribute the income of the Chinese people and enable the national economy to develop in a more civilized and healthy direction.

3.2.2. Cons

The implementation of the "VAT Reform" is actually a double-edged sword, which is both an opportunity and a challenge for enterprises. Although the "VAT reform" as a whole reduces the tax amount of enterprises, it is faced with a huge tax burden for some enterprises, most of which are unable to obtain input tax invoices in their daily activities, so that the input tax cannot be reduced with the output tax, so it will increase the tax burden of enterprises. In this way, whether it is VAT or business tax, it is actually the same, not to mention that the VAT rate is much higher than the business tax, for these enterprises is not the same as sprinkling salt on the wound. For example, a construction enterprise buys building materials from farmers, and farmers are unable to issue VAT invoices to construction enterprises, so these building materials will not be recognized by the state as having paid taxes, so that the enterprise will not be able to use the input tax to deduct enough to buy materials. Secondly, the occurrence of such a phenomenon may force individual enterprises to issue fake input tax invoices for financial and tax fraud in order to reduce the tax burden, and at the same time make the professional ethics of enterprises face a huge test. All in all, not all enterprises will reduce their tax burden after the "VAT reform", which is a major drawback of the "VAT reform".

4. SUMMARY

From the above, it can be seen that China's value-added tax legal system is becoming more and more humane in the process of continuous reform and improvement, which has brought a lot of convenience to taxpayers and provided an indispensable part for promoting the healthy development of the national economy.

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