**China's VAT Reform in Time of Financial Crisis**

*Hong Kong, December 1,2008* - Nationwide value-added tax (VAT) reform (irrespective of regions and industries) will take effect from January 2009, the Chinese government announced on November 2008. The measure will affect all industries and all areas and is expected to reduce the corporate tax burden by around 120 billion yuan (US$ 17.6 billion). The new tax laws also encourage technology upgrades.

The recent unprecedented "global financial tsunami" evolving to potential economic recession has served as catalyst to the long-awaited VAT reform.

Major contents of the VAT transformation reform

- Transformation from "production-base" to "consumption-base".
- The cost of buying equipment will be tax-deductible （To plug any tax loophole, the tax rules shall exclude the VAT paid for small passenger vehicles, motorcycles and yachts that are subject to consumption tax.）
- Scrapped policies that exempted imported equipment from VAT. (The tax exemption policy that is done away with in the VAT transformation reform mainly refers to the policies as promulgated by the State Council under decree no. Guo Fa [1997] 37 and Guo Fa Ban [1999] 73.)
- Removed foreign-funded companies from eligibility for tax rebates on domestic equipment purchases to put them on an equal footing with domestic companies.
- The levy rate for small scale taxpayer engaged in production and non-production business shall be reduced to a uniform rate of 3%
- The VAT rate for mineral products shall be increased to 17%.



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Global economic growth rate has obviously been slowed down. In view of such situation, the introduction of VAT transformation reform will perform the important function of boosting the development of the enterprises, improving the competitiveness of the Chinese enterprise and the capability to cope with risks,

That will eliminate the double taxation resulting from the adoption of the production-type VAT system; reduce the tax burden for investment in capital equipment

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