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China reduces tax burden on firms

The government Monday announced that it would cut value-added tax (VAT) for all industries from January 1 to reduce the tax burden on companies by more than 120 billion yuan ($17.57 billion) next year.

The State Council, in an executive meeting, passed revised regulations on VAT, consumption tax and business tax. It is part of a stimulus package of 4 trillion yuan to be spent by the end of 2010.

The revision is aimed at a shift from the existing production-based to a consumption-based VAT regime, which would enable companies to get tax deductions on spending on fixed assets, the meeting said.

It also scrapped policies that exempted imported equipment from VAT, and ruled that foreign-funded companies will not enjoy tax rebates on domestic equipment purchases as they used to, putting them on an equal footing with local companies.

The VAT rate for small businesses was reduced to a universal 3 percent from 6 percent for industrial firms and to 4 percent for commercial companies.

The reform would help encourage technological upgrading at Chinese companies, boost domestic demand, and push for industrial restructuring, said the meeting.

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