

A Comparative Study on Replacing Business Tax with Value-added Tax of Domestic and Foreign Telecommunication Industry

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Abstract—This paper starts with the background and significance of replacing business tax with value-added tax, expounds the main viewpoints of the domestic and foreign scholars on the related issues of it, and summarizes the characteristics of the development of value-added tax at home and abroad. It also analyzes the current situation and a problem of the business tax in China's telecommunication industry, analyzes the necessity of replacing business tax with value-added tax and the practical effect of the value-added tax collection in the developed countries, especially the EU countries. It analyzes the changes of tax bearing after the reform of China's telecommunication industry. Finally, this paper also pays attention to the latest news of replacing business tax with value-added tax in China.

Keywords—replacing business tax with value-added tax; business tax; value-added tax; telecommunication industry

I. INTRODUCTION

Since the advent of value-added tax in France in 1954, nearly 160 countries or regions in the world adopt this tax category. The implementation of value-added tax is not only conducive to eliminate the double taxation, expand foreign trade and implement the principle of fair tax burden. Moreover, the value-added tax plays an important role in stabilizing the national tax revenue, promoting the rationalization of the division of labor and the rationalization of the production and management structure.

Through the study of value-added tax, foreign scholars believe that the introduction of value-added tax is feasible for many countries, even more it is necessary. And they agree that the scope of value-added tax is not only limited to the field of industrial production and retail, but also to extend to the field of service industry. The scope of the value-added tax is great in a country; the tax system in this country is more perfect and effective. But most countries did not experience the process of replacing business tax with value-added tax of telecommunication industry. So there is less studies of foreign scholars on replacing business tax with value-added tax of telecommunication industry, which is related to the national welfare and the people's livelihood and the economic development.

Some domestic scholars also regard the telecommunication industry as an individual research object to study of changing to added-value tax. And the study mainly focused on the problems that the telecommunication industry changes to levy VAT, such as it is difficult to confirm the output tax and input tax, how to gain the input tax and value-added tax invoices, the impact on profit for the telecommunication industry and other problems. Guo Fanli (2013) believes that: replacing business tax with value-added tax will adversely affect the profits of the telecommunication industry. After the telecommunication industry levying value-added tax, the profit reduces because the tax increases. But at the same time, he also points out that replacing business tax with value-added tax cancels the double taxation and plays a positive role in reducing the tax burden of the whole society. In the long run, after replacing business tax with value-added tax of telecommunication industry, it can be expected that burden of taxation increases. But there are also different points of view, Huang Zhizi (2012) think: appropriately bring the post and telecommunication industry, the construction industry and other production servicing business into the pilot industry, because the intermediate links of the two industries and the relevant enterprises are more, the tax burden is expected to significantly reduce after replacing business tax with value-added tax. About the impact of replacing business tax with value-added tax for the telecommunication industry, Liang Cuiqiong (2013) believes that: there are dual impacts: On the one hand, the cost of capital acquisition is reduced; on the other hand, the tax burden of the telecommunication industry increases, revenue and profit decline, so that it is more difficult to change the information system of telecommunication industry. Chen Zhibin (2013) thinks that due to the VAT has the characteristics of tax excluded in price, regarding with the sale, ticket control tax and unique tax administration pattern, leads to the financial index of telecommunication industry decline in the short term, the market marketing faces policy risk, IT system transformation is complex, the difficulty of tax management increases. Yu Juqing (2012) points out that after replacing business tax with value-added tax, the marketing program of telecommunication enterprise will be impacted, and separately puts forward specific measures in terms of the pre-sell and pre-store business, purchasing business with free (selling cheap) terminal service, buying terminal with free business, contract number consumption business.

II. THE CHARACTERISTICS OF THE DEVELOPMENT OF THE VALUE-ADDED TAX AT HOME AND ABROAD

A. *The Value-added Tax Policy Is More and More Consistent*

The tax policy of each country will have many differences because of the different national conditions. With the continuous development of the world economy, the trans-regional, trans-national economy and trade will continue to increase, if there is a big difference in the policy of value-added tax in different countries, it will encourage the taxpayer to choose the policy which is more favorable. Obviously, it is contrary to neutral principle of value-added tax, and it is not conducive to the economic development of the backward country. And the increase of tax revenue, simplification of tax collection and management is the common goal of all countries, so in recent years, all countries attach great importance to draw lessons from the advanced experience of other countries, and further improve the system of value-added tax. In this way, the reform of the value-added tax in all countries has many similar characteristics. ① The levy scope is more and more extensive, agriculture, real estate, labor service (except for the finance and insurance industry) is continually included in the scope of the levy of the value-added tax; ② The tax rate is more and more simplified, usually a standard tax rate plus a low tax rate, because the complex tax rate will lead to complex collection and management; ③ Tax deduction becomes more and more thorough, any taxable goods consumed outsourcing projects, shall be allowed as deductions, because only in this way it can truly realize the fair taxation, so that it can be beneficial to the development of foreign trade; ④ More and more countries use the method of tax deduction on invoice, only a handful of countries (such as Japan) to implement the value-added tax on the basis of books.

B. *The Means of Collection and Management Are Becoming More and More Advanced*

In addition to the policy formulation, tax authorities also need to propagandize and counsel the taxpayer policy, and are responsible for tax warehousing. In order to ensure the taxes are timely and fully put in storage, all countries are constantly strengthening the collection and management of value-added tax. In many western countries, the collection and management of value-added tax realizes computerization. When the taxpayers register, the information of taxpayer's business scope, mode, scale, location, legal representative, tax payment method and others are input to the computer management system, while the taxpayer identification number is allotted. Computer management system automatically sends value-added tax returns to taxpayers on time. If the taxpayer fails to declare or pay taxes, the computer management system will automatically send reminder letter to the taxpayer. Fast and efficient computer management system, not only can ensure the timely storage of tax revenue, but also to create a favorable condition for the inspection of value-added tax.

C. *Inspection Work Has Been Paid More and More Attention*

Through the value-added tax inspection, tax revenue can be increased. Any tax system will have various loopholes; there will be the problem of tax evasion in any time and any country.

If there is a perfect inspection system, the most of the evasion of taxes will be recovered. The inspection costs of value-added tax may be small, but the inspected taxes may be large, for example, the ratio of the inspection costs and the inspected taxes is 1: 12.5 in New Zealand. At present, countries around the world are constantly strengthening the inspection of value-added tax. On the one hand, constantly enrich VAT inspection team, strengthen business training, and improve the inspection ability. In the member countries of the organization for economic cooperation and development, the inspectors generally accounted for 40 percent to 50 percent; On the other hand, strengthen the value-added tax inspection methods, equip with the corresponding computer equipment to the inspection departments and personnel, and combine with the software system of collection and management computer to improve the efficiency of the inspection work. At present, most countries have implemented the audit method of comprehensive analysis of tax declaration. After the end of tax declaration period, computer audit system will contrast and analyze declaration of taxpayers and its registered place of business, mode, industry, and previous tax situation, if the declaration is abnormal, the taxpayer will be regarded as the key audit object, and the inspection personnel conduct in-depth inspection of enterprises. The input taxes of taxpayers generally do not conduct a comprehensive cross audit. Only when the input taxes of taxpayers are in doubt, the inspection personnel will check the seller. And the verification mode can be computer network, also the letter.

D. *The Problems of Small Taxpayers' Collection and Management Are Becoming More and More Prominent*

The collection and management of small taxpayer is very complicated, the taxpayers often have the sole proprietorship (or a few people in joint ventures), and flexible mode of operation, there is no complete accounting records, so they have the great possibility of tax evasion. At present, many countries have provided a cutoff point; the sales of small taxpayers is lower than the cutoff point, they may don't register and enjoy tax exemption, but the input tax is not deductible. The number of those small businesses may be large, but the tax fund is small, so the tax exemption will not cause a significant impact for the total tax revenues, on contrary it can greatly simplify the collection and management. In order to reduce the cost of tax payment and the collection cost, the taxpayers whose sales over the cutoff point but the scale is not too large can properly extend the tax payment period (the taxpayer voluntarily choose), six months or a year to declare once.

III. THE PROBLEMS OF BUSINESS TAX OF CHINA'S TELECOMMUNICATION INDUSTRY

With the continuous innovation of marketing model of telecommunications industry, it forms a challenge for the current business tax. For example, prestore telephone charge and given a mobile phone as a gift, in accordance with the provisions, the business of subsidiary corporation of China Mobile Limited Company with giving material object (including complimentary SIM card, mobile phone or economic goods in kind) belongs to the behavior that gifts in

kind while the telecom unit provides labor service of telecommunications industry, in accordance with the provisions of the existing tax policies, the country does not levy value-added tax, the input VAT shall not be deductible. The act of giving a gift in kind is the act of a telecommunications giving other people a free gift. It does not belong to the scope of business tax, and does not levy business tax. This created the conditions for tax evasion behavior of telecom operators. Another example, the problem of pre-storing telephone charge and giving extra telephone charge as a present, the tax policy is undefined whether the extra given telephone charge should be levied business tax.

The business tax provisions of the telecommunications industry is also a problem. It is mainly reflected in the following aspects: First, the use of the sales tax invoice of telecommunications industry is not standardized; it impacts the financial management and tax collection and management. First, there are no related documents that affirm the income and invoices of the inter-network settlement of telecommunications enterprise. In addition, due to the useless of the invoice, a large part of the customers does not require tax invoices. It makes that the real business income of telecom operators is far greater than the invoice value, so that cause the behavior of tax evasion of telecommunications companies. Second, the stipulation of current business tax is very easy to cause tax evasion behavior. In accordance with the related provisions, the business of Subsidiary Corporation of China Telecom with giving material object belongs to the behavior that gifts in kind while the telecom unit provides labor service of telecommunications industry, in accordance with the provisions of the existing tax policies, the country does not levy value-added tax, and the input VAT shall not be deductible; The act of giving a gift in kind is the act of a telecommunications giving other people a free gift. It does not belong to the scope of business tax, and does not levy business tax. This provision seems simple, but telecom operators to have a good opportunity to evade tax.

IV. THE SPECIFIC PRACTICE OF THE COLLECTION OF VALUE-ADDED TAX IN FOREIGN DEVELOPED COUNTRIES, ESPECIALLY EUROPEAN UNION COUNTRIES

A. *Giving the Option of Tax Payment to Telecom Operators*

The European Union decided to give the option of tax payment to small business operators, the small telecom operator that its annual sales volume less than 2 million euros can choose to pay taxes when the operators issuing invoice or after receiving funds. This will avoid the situation that the companies pay taxes before they receiving funds, it is conducive to improving the cash flow of the enterprise.

B. *The Payment of Value-added Tax of Cross-border Telecommunications Industry Is Adapted to One-stop Management*

In 2012, the European Union introduced a new value-added tax decree for cross-border telecommunications services; it stipulates that the tax payment place of the cross-border telecommunications service is changed from the taxpayer's residence to the place of residence of the consumer. On the one

hand, one-stop management will effectively simplify the VAT tax; on the other hand, it will avoid vicious competition between countries for tax sources.

C. *Separate the Post and Communications Industries and Make a Difference between Them*

In 1990s, the European Union evaluated the profits of the postal service and telecommunications and found that the profit of traditional postal service industry is far less than the profit of the telecommunications industry with rapid development. Whereas a large portion of the postal service is duty-free, the postal service and telecommunications as a tax items to levy could easily lead to chaos in the tax collection and management. So separating the post and communications industries and making a difference between them also solve the problems.

V. THE CHANGES IN TAX BURDEN AFTER THE REFORM OF TELECOM INDUSTRY

On April 30th, the three major operating companies respectively released the announcement on replacing business tax with value-added tax. They pointed out that the replacing business tax with value-added tax will cause a greater negative impact in the short term for the earned profit. The main reason is that the value-added tax has the characteristics of "separation of taxes and price", the operating income will be reduced after replacing business tax with value-added tax; At the same time, the part of item of expenditure cannot obtain input VAT deduction (such as depreciation and amortization, and labor costs), that will lead to the cost reduction caused by replacing business tax with value-added tax will be lower than the income reduction rate. But it is favorable for the downstream private enterprises which manages value-added telecom service.

For the private enterprises which manages value-added telecom service, by original in accordance with 3% of operating income to pay business tax. After replacing business tax with value-added tax, the applicable tax rate is 6%, but the cost of the upstream telecom operators also can be obtained special VAT invoice to use of deduction. After replacing business tax with value-added tax, the general taxpayer enterprises purchase services from telecom operators, both the basic telecommunications business and value-added telecom business, may require the operators to provide value-added tax invoices and offset the input tax. The general taxpayer enterprises purchase "contract plans" from telecom operators for the company's production and operation, pay a certain price, they can get telephone charge (telecom basic service), flux (telecom value-added services) and mobile phones. In accordance with the provisions of article 4, No.43, Finance and Taxation [2014], telecom operators shall calculate the sales of telephone charge, flux, mobile phones in accordance with the reasonable method, in accordance with their respective applicable tax rate, 11%, 6% and 17% to pay value-added tax. The purchaser can ask for the special invoices for value-added tax to reduce enterprise value-added tax burden.

VI. THE LATEST NEWS OF REPLACING BUSINESS TAX WITH VALUE-ADDED TAX IN OUR COUNTRY

The reform of replacing business tax with value-added tax that will fully implement on May 1, 2016 is considered to be the most profound tax reform since the 1994 tax reform; it has taken a significant step in the progress of the tax system. The reform involves in the construction industry, real estate, financial industry and the service industry, the four major industries will levy value-added tax instead of business tax. This means that the business tax will be completely withdraw from the historical stage, and the VAT as the first major tax, its system will be more perfect and standardized. From the pilot situation, there are some industries increase the tax burden in the beginning; and it is gradually solved though the exploring for more than 2 years. According to the reports of Ministry of Finance and the Administration of Taxation, up to the end of 2015, cumulative tax reduction is 641 billion 200 million Yuan. In the case of the downward pressure on the economy continuously increasing; replacing business tax with value-added tax played a positive role. This year the world economy uncertain factors are increasing. We must withstand the downward pressure on the economy and maintain a good momentum in smooth, the proactive fiscal policy need to boost efficiency. This year, the CPC Central Committee and the State Council decided that increasing the deficit rate to 3% by the National People's Congress approved. This increase is mainly used to tax reduction, and the main channel of tax reduction is replacing business tax with value-added tax.

VII. CONCLUSION

Telecommunications industry plays an important role in promoting employment and stimulating national economic growth. With the development of the national economy, the telecommunications industry further strengthen the penetration to other industries, especially for the modern service industry that has been included in the scope of replacing business tax with value-added tax. The telecommunications industry is levied the value-added tax not only to increase the country's financial revenue, create an environment of fair taxation and fair competition between enterprises, and promote the effective allocation of resources. And it is conducive to integrate with international telecommunications industry, establish normalized value-added tax system that is suitable with modern market economic system. The current business tax is no longer adapted to the increasingly complex telecommunications services. With the implementation of replacing business tax with value-added tax in the whole country, the replacing business tax with value-added tax of telecommunications industry has become an inevitable requirement of the tax system reform.

Full implementation of replacing business tax with value-added tax is the highlight of government work in this year, is a key measure that shows the proactive fiscal policy is more effective, and is the significant measure of structural reform and the reform of the taxation system. The replacing business tax with value-added tax not only to reduce tax for enterprises and promote the adjustment of the tax system, but also help the

country's economic development and play an important role for China's economic transformation upgrade.

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