

## Conclusion of the VAT Reform by 2015: Act now, stay ahead

### VAT Reform Readiness Series - Construction and Real Estate Industries

It is expected that the VAT Reform will be complete by 2015, so the clock is counting down now.

#### 1/ Key impacts of the upcoming VAT Reform

##### Possible increase of the VAT burden

	Sector	Before the Reform	After the Reform	Key points to note
Output side	<b>Real Estate</b>	5% Business Tax ("BT")	11% or 17% VAT may apply on the leasing and sale of property	<ul style="list-style-type: none"> <li>In theory, VAT is neutral as it can be passed through to end customers;</li> <li>However, in commercial practice, whether it is possible to pass on all the VAT to customers, especially individuals? If not, what would be the impact to the business?</li> </ul>
	<b>Construction</b>	3% BT on net basis	Likely 11% VAT	
Input side	<b>Real Estate &amp; Construction</b>	N/A	Input tax credit available	<ul style="list-style-type: none"> <li>The good impact is that the input VAT incurred on costs is recoverable after the Reform through the VAT credit mechanism, so the purchase costs can be reduced;</li> <li>However, how to get sufficient VAT invoices to support input VAT deduction could be an issue, especially if the suppliers are small scale in the construction sector.</li> </ul>



#### Transitional rules

- Possible transitional rules, especially for the costs already incurred before the Reform in the following situations:
  - Ø Work-in-progress
  - Ø In-sale property
  - Ø Leasing of existing property



#### Cash flow management

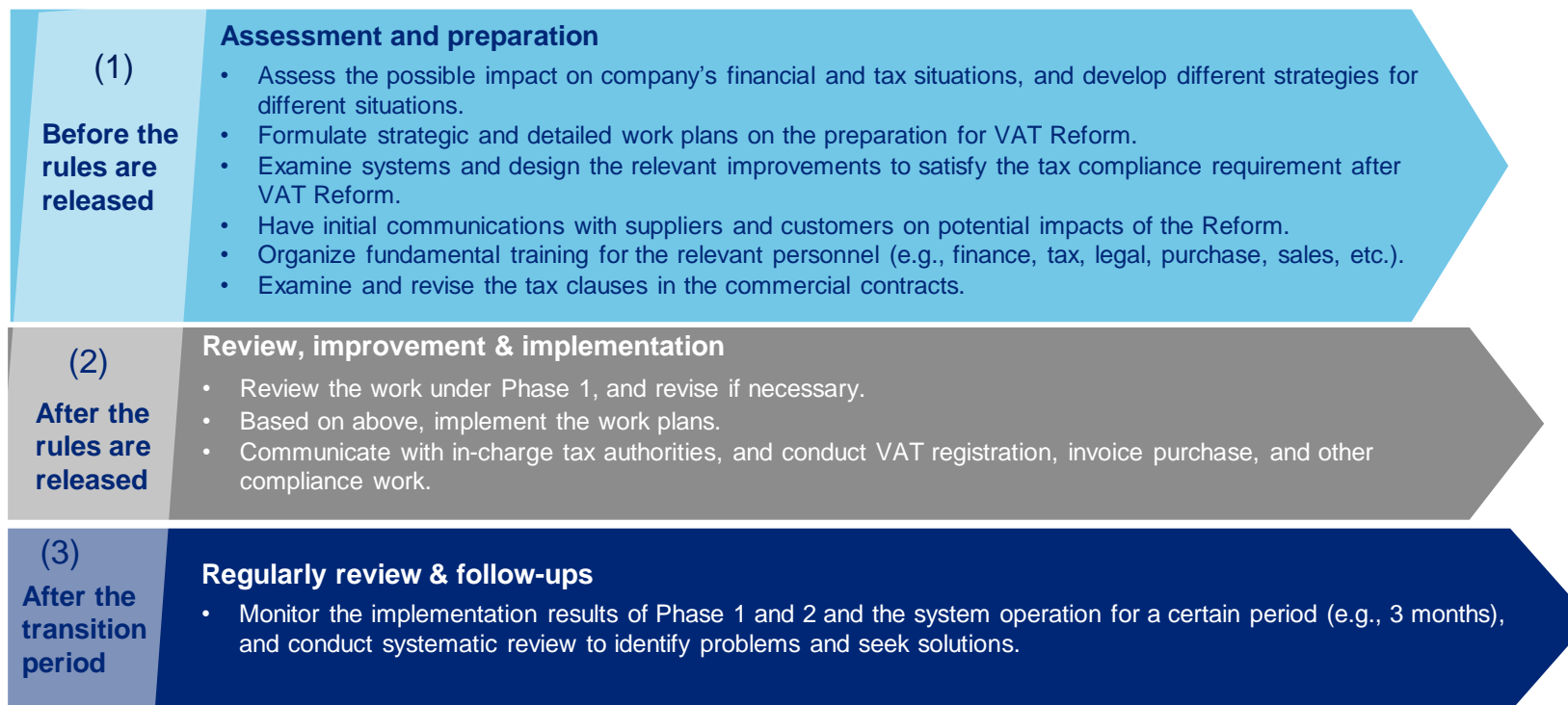
- Cash flow management is crucial after the Reform, especially in the presale model.

**Companies are recommended to understand the potential impacts of the upcoming Reform on their business and quantify from both financial and commercial perspectives.**

# Conclusion of the VAT Reform by 2015: Act now, stay ahead (Cont'd)

## 2/ VAT Reform Readiness Program

- **Experience from the past 3 years** - Very short timeframe for preparation after the rules are announced
- **Our suggestion** - Counting down from the likely effective date and prepare an action plan, with milestones, financial impact analysis on pricing, compliance and systems needs, communications with customers.
- **A phased systematic approach** is recommended to help your company prepare for the VAT Reform and ensure a smooth transition from a BT payer to a VAT payer:



### Contacts

**Sarah Chin**  
National Leader,  
Indirect Tax Services  
+852 2852 6440  
[sachin@deloitte.com.hk](mailto:sachin@deloitte.com.hk)

**Northern China**  
**Yi Zhou**  
Partner  
+86 10 8520 7512  
[ichow@deloitte.com.cn](mailto:ichow@deloitte.com.cn)

**Eastern China**  
**Liqun Gao**  
Partner  
+86 21 6141 1053  
[ligao@deloitte.com.cn](mailto:ligao@deloitte.com.cn)

**Southern China**  
**Janet Zhang**  
Partner  
+86 20 2831 1212  
[jazhang@deloitte.com.cn](mailto:jazhang@deloitte.com.cn)

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited, a UK private company limited by guarantee ("DTTL"), and its network of member firms, and their related entities. DTTL and each member firm are legally separate and independent entities. DTTL (also referred to as "Deloitte Global") does not provide services to clients. Please see [www.deloitte.com/cn/en/about](http://www.deloitte.com/cn/en/about) for a detailed description of DTTL and its member firms.

This communication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively, the "Deloitte Network") is, by means of this communication, rendering professional advice or services. No entity in the Deloitte network shall be responsible for any loss whatsoever sustained by any person who relies on this communication.