

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

### VAT Reform Readiness Series - Hospitality

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

##### Taxing method

Before the Reform	After the Reform
5% Business Tax ("BT")	<p><b>General taxing method</b> <i>(likely under the current discussion)</i></p> <ul style="list-style-type: none"> <li>• VAT payable = Output VAT – input VAT (likely 6% VAT rate);</li> <li>• In theory, VAT is neutral as it can be passed through to end customers. However, it may not be easy to fully pass on all the VAT to customers from a commercial perspective;</li> <li>• The purchase cost can be reduced as the input VAT incurred on costs is recoverable. How to get sufficient VAT invoices to support input VAT deduction could be an issue, especially if some of the suppliers are small scale VAT payers.</li> </ul> <hr/> <p><b>Simplified taxing method</b> <i>(according to Caishui [2011] No. 110)</i></p> <ul style="list-style-type: none"> <li>• VAT payable = revenue * VAT levying rate (likely 3%);</li> <li>• No input VAT credit, so the VAT cost on purchase could be higher after all industries joining the VAT reform pilot</li> </ul>



#### The credibility of VAT charged by hospitality

- Currently, the VAT charged on passenger transportation services (e.g. airline, railway) is not deductible at the customer's side;
- After the VAT Reform, whether the VAT charged by hospitality can be deducted by the customers is crucial and may affect the hospitality's ability to charge VAT to the customers in the commercial practice.



#### The complexity of VAT treatment on different revenue streams

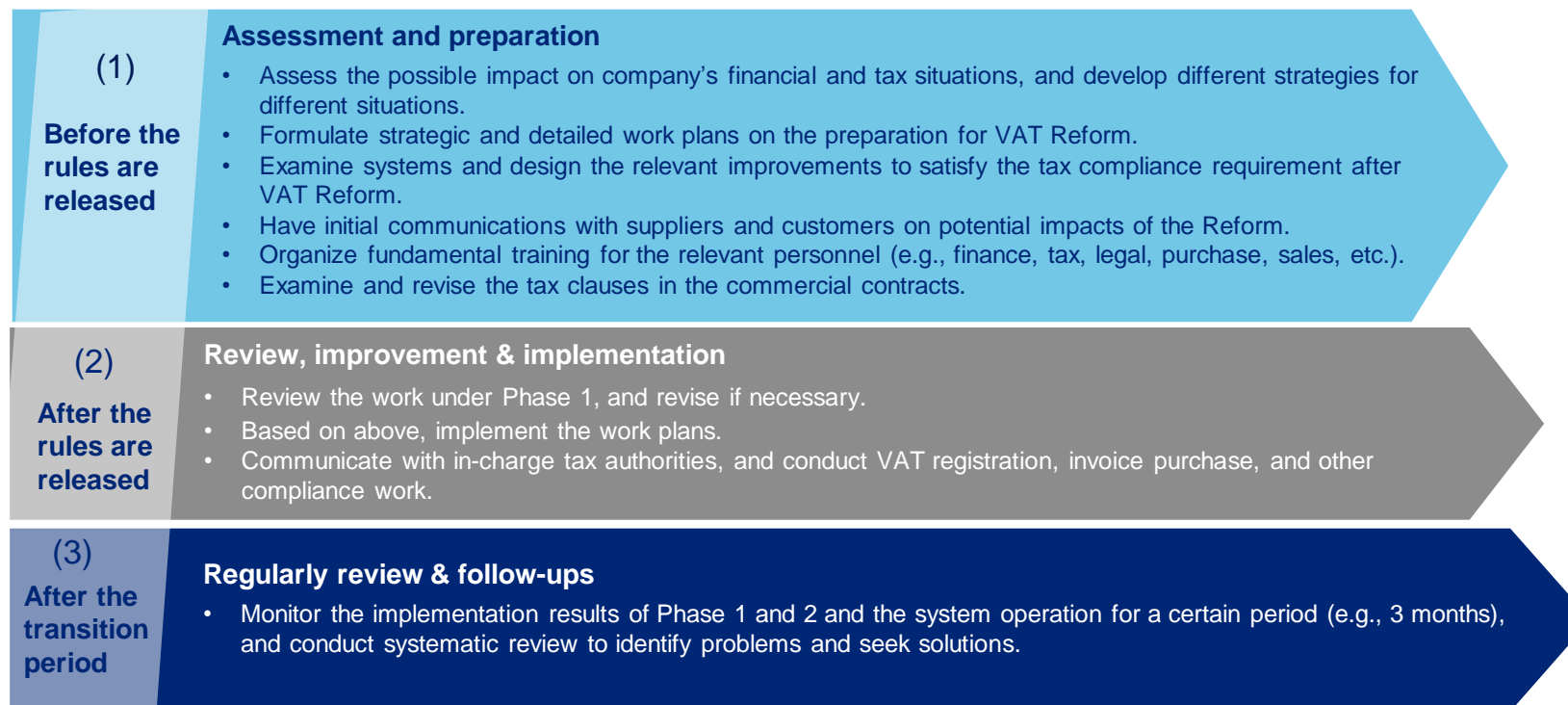
- Different VAT treatments may apply on different revenue streams (e.g. hotel rooms revenue, long-term leasing income, catering service income, SPA service income, sales of goods (e.g. SPA products), conference service charge);
- Deemed sales possibilities on supply of goods and/or services free of charge;
- Need to separately account for the revenue generated from different activities and apply the appropriate VAT treatments.

**Hospitality companies are recommended to understand the potential impacts of the upcoming VAT 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:



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