

## **The Study on the Influence of "Replacing Business Tax with Value-added Tax" on Catering Industry in China**

Luzhu Zhou

School of Management, Sichuan University of Science & Engineering, Zigong 643000,  
China.

Martina526@163.com

---

*Abstract: "Replacing Business Tax With value-added tax(VAT)" is an important reform of China's tax system, and catering enterprises are greatly affected. Firstly, this paper analyzes the differences between business tax and value-added tax, and explains the reasons for changing business tax to value-added tax. Secondly, it analyzes the influence of the reform on the catering industry from seven aspects, providing reference for the catering industry to cope with the tax reform.*

*Keywords: "Replacing Business Tax With value-added tax", Catering industry, Influence.*

---

### **1. INTRODUCTION**

Since January 1, 2012, replacing business tax with VAT experiments were made in transportation industry and part of modern service industry in Shanghai. On May 1, 2016, China's construction industry, real estate, finance, life and service industry were all replaced business tax with VAT, China entered the era of comprehensive replacing business tax with value-added tax. On November 19, 2017, the state council officially abolished the business tax. From May 1, 2018, tax rates of 17% and 11% is adjusted to 16% and 10%. The VAT policy is in the process of continuous revision and improvement and has become one of the important taxes paid by enterprises.

With the improvement of people's living standard, catering industry is growing continuously, people have more and more choices and higher requirements for catering industry. "Replacing business tax with VAT" has had an important impact on the catering industry, including tax category, tax rate, taxpayer identity, collection method, tax burden, accounting, etc. Only by clarifying the impact of "replacing business tax with VAT" on the catering industry can we properly deal with it and gain the competitiveness in the industry.

## 2. THE DIFFERENCE BETWEEN BUSINESS TAX AND VAT

### 2.1 The principle of taxation

Business tax is a tax on the turnover of units and individuals who provide taxable services, transfer intangible assets or sell real estate property in China. Business tax is one of the main taxes in the turnover tax system. The object of business tax is the turnover. The characteristics of business tax include the following aspects: first, the scope of taxation is extensive and universal; second, the method of tax planning is simple, and it is calculated according to total turnover by using the proportional rate of tax; third, different industries have different tax items and different tax rates.

VAT is a kind of turnover tax that is levied on the basis of the added value of goods (including taxable services) generated in the circulation process. VAT is price excluding tax, the tax base does not include VAT. As in practice, it is impossible to accurately calculate the added value of each link in commodity production and circulation, therefore, most countries collect VAT from the taxpayer by means of tax deduction.

From the principle of taxation, VAT levies on added value portion to avoid the repeated tax problem. According to purchasing tax-deducting method used in practice, VAT can get through each link of the VAT deduction chain. However, business tax levied on total turnover, it increased the tax burden of the catering industry, and it was not conducive to catering industry's development and growth.

### 2.2 The method of taxation

Business tax is a kind of tax included in price, the tax amount was sales multiplied by tax rate. VAT belongs to tax excluded in price, when calculating the amount of output and input tax, its tax base does not include tax amount. If the selling or purchase price includes VAT, the price and tax shall be separated first. VAT adopts the purchasing tax-deducting method, the actual amount of tax payable can offset input tax.

Business tax payable = turnover × tax rate

VAT payable = output tax - input tax

= sales price without tax × applicable tax rate - purchase price without tax × applicable tax rate

= sales price inclusive of tax ÷ (1 + applicable tax rate) × applicable tax rate - purchase price inclusive of tax ÷ (1 + applicable tax rate) × applicable tax rate

### 2.3 Tax rates and status of taxpayers

There is no difference in status of taxpayer when it refers to business tax. No matter the size of catering industry, the unified business tax rate is 5%. Status of VAT taxpayers includes general taxpayer and small-scale taxpayer. General taxpayers apply tax rate of 6% and they can deduct input tax. However, small-scale taxpayers cannot deduct input tax, this is why small-scale taxpayers use simple taxation method, and they can use rate of 3%. When applying 3%, it is obvious that the tax burden of catering industry must be reduced, while the general taxpayer who apply 6% cannot be lumped together, cause input tax is not the same.

Table 1 Comparison of tax rates and identity of taxpayers

Tax categories	Business tax	VAT	
Tax rates	5%	6%	3%
Status of taxpayers	None	General taxpayer	Small-scale taxpayer
Tax payable	Turnover ×5%	Sales price without tax×6%- purchase price without tax×6%	Sales price without tax×3%

### 3. THE INFLUENCE OF REFORM ON CATERING INDUSTRY

#### 3.1 The influence on tax burden

Catering enterprises' operating cost is mainly composed of labor costs, food costs, property rental costs and cost of energy resources. When business tax was levied, catering enterprises need to burden VAT of purchased materials. After the products sold, they would be levied on the basis of turnover who contained VAT. Therefore, repeated taxation was inevitable.

For general taxpayers of catering industry, the cost of food, property rental and energy resources can be offset by obtaining the VAT invoices after "replacing business tax with VAT". There are many items of input tax who can be deducted as Catering enterprises' procurement cycle is short, this makes the catering enterprises reduce tax burden significantly in short term. At the same time, the real estate industry is also in the range of the reform, the leasing of real estate can also be deducted.

Assume that catering enterprise's operating revenue is R, operating cost and expense is C, the deductible ratio of cost is P %, the VAT rate of purchasing is 17%.

Table 2 Comparison of tax burden

(1)tax burden rate of business tax	5%
(2)tax burden rate of VAT	VAT payable of catering enterprises = $R \div (1+6\%) \times 6\% - C \times P\% \times 17\%$ = $0.057R - 0.17CP\%$
	tax burden rate of VAT = $(0.057R - 0.17CP\%) \div R$
If (1)=(2)	$(0.057R - 0.17CP\%) \div R = 5\%$ , then $CP\% \div R = 4.12\%$
(1)>(2)	$CP\% \div R > 4.12\%$
(1)<(2)	$CP\% \div R < 4.12\%$

According to table 2, tax burden rate will be less than before when catering enterprise's deductible cost divided by operating revenue is more than 4.12%. Therefore, catering enterprises especially who are general taxpayers can reduce tax burden rate by improving deductible cost. From May 1, 2018, qualified general taxpayers can be converted into small-scale taxpayers, or continue to be a general taxpayer. Starting from the next registration date, VAT shall be

calculated and paid according to the simple method. It provides space for tax planning of catering industry, especially who has little input tax.

### **3.2 The influence on supplier selection**

The deduction of VAT input tax is mainly considered when choosing supplier. Catering enterprises who are General taxpayers can deduct input tax by obtaining VAT special invoices from suppliers. As a result, catering enterprises can choose supplier who are general taxpayer after replacing business tax with VAT. If not, catering enterprises can only get VAT ordinary invoices which are unable to deduct input tax. In some cases, catering enterprises can get VAT special invoices of 3% tax rate issued by tax bureau. If there is no distinction in price, quality and other conditions, catering enterprises can choose suppliers who are general taxpayers and establish long-term cooperative relations. Catering enterprises can also purchase processed materials, it can not only reduce the food processing, but also save the cost and improve profits to a certain extent.

No matter purchasing from general taxpayers or small-scale taxpayers suppliers, catering enterprises who are small-scale taxpayers are unable to deduct the input tax, they can only use simple tax method. Therefore, catering enterprises who are small-scale taxpayers can choose suppliers with lower prices, or merge suppliers to realize backward integration on the premise of ensuring the quality and safety of food materials.

### **3.3 The influence on invoice management**

Replacing business tax with VAT raises higher requirements for invoice management of catering enterprises, especially for general taxpayers. There was no deduction when paying business tax, and the invoice management was at will. After the reform, VAT special invoice obtained when purchasing needs to be certified and deducted within specified time limit. The input tax cannot be deducted if VAT special invoice is beyond the specified time limit. This part of value-added tax has been passed on to the catering enterprises when purchasing, enterprises will face losses if it cannot be deducted. Catering enterprises must check whether invoice information is complete and accurate when receiving invoices. They may assign someone to keep invoices and tracking for acquisition time of each invoice to make sure input tax of each invoice is deducted timely. Someone shall be appointed to keep VAT special invoices that may generate output tax. It is necessary to establish accountability system to prevent employees from writing false VAT invoices for their own benefit and to avoid legal risks.

### **3.4 The influence on accounting treatment**

Business tax is included in the business taxes and surcharges, which affects the operating profit of catering enterprises. After the reform, financial staff of catering enterprises face the challenge of accounting treatment, because VAT will no longer affect business taxes and surcharges. It is necessary to set up a number of detailed subjects under the subject of "tax payable". There is still carry-over problem between different detailed subjects, which makes accounting treatment more complicate. After selling food, sales income including tax on the

ordinary invoice should be converted into sales income without tax, while VAT is also recorded separately. The reform makes accounting treatment more complicated.

### **3.5 The influence on operating decisions**

The rent of factory buildings, stores and equipment of catering enterprises can only be deducted before the income tax, it has no direct effect on the business tax. The purchase of fixed assets cannot deduct the input tax, it can only be included in the cost of fixed assets and included in depreciation of every month. No matter rent or buy, if enterprises can get the special invoice, they can deduct it without including in cost after the reform. Catering industry can make use of time value of this fund, and the cost of updating fixed assets is reduced, which is beneficial to the renewal of equipment and the development of the industry.

### **3.6 The influence on operating profit**

After replacing business tax with VAT, the cost of food material, property rental and energy resource of catering enterprises can be deducted by obtaining the VAT special invoices, no tax is required to be included in the cost. Lower VAT tax will result in lower urban maintenance and construction tax and extra charges of education funds. Therefore, the operating profit of the catering enterprises may rise. The business tax affected the operating profit, and the VAT tax is included in the liability subject of "payable tax" which will not affect the operating profit, this will further lead to the increase of operating profit of catering enterprises.

According to the data released by the national bureau of statistics, in 2016, the main business taxes and surcharges of catering enterprises was 12.23 billion yuan, while in 2015, it was 24.73 billion yuan, down by as much as 50%. In 2016, the profit of the main business was 225.601 billion yuan, and in 2015, it was 209.769 billion yuan, this indicated that the profit of the catering industry has increased after VAT levied on the industry.

### **3.7 The influence on personnel management**

It is indispensable to have a large number of technical, management and service personnel for catering enterprises. Labor costs are high, but cannot be deducted when calculating VAT payable. Due to the higher requirements for the accounting treatment of catering industry, enterprises can introduce qualified financial personnel and strengthen the invoice management and VAT tax planning. In addition, catering enterprises need to make full use of the policy of the reform in the recruitment process, a reasonable recruitment method is chosen to reduce tax burden and increase profits for enterprises. Moreover, catering enterprises may minimize recruitment on the basis of meeting basic needs, some mechanized work may be considered by purchasing machinery and equipment instead of manpower. The input tax of machinery and equipment can be deducted, and the depreciation amount can also reduce the enterprise income tax.

## **4. CONCLUSION**

The reform of "replacing business tax with VAT" has opened up the chain of deduction in the catering industry to avoid repeated taxation. At the same time, it also challenges the cost accounting, tax burden, financial performance, contract signing, invoice management and even

management system design of the catering industry. Catering enterprises shall choose the status of taxpayers according to their own conditions and maximum policy dividends. The reform may reduce tax burden, increase profits, it also poses challenges to the management level, catering enterprises need perfecting the invoice management system, selecting suitable suppliers, and strengthen financial personnel's training. It is essential for catering enterprises to seize the opportunity of the reform, make tax planning in advance, and improve economic benefits in the long run.

## **ACKNOWLEDGEMENTS**

Development and Research Center of Sichuan Cuisine.

## **REFERENCES**

- [1] Alan S, Oliver O. Value add tax:a comparative approach[M]. London:Cambridge University Press,2007.
- [2] Keen, Michael. VAT tariffs and withholding: Border taxes and informality in developing countries[J]. International monetary fund, 2007(6):7-36.
- [3] Christopher S. Armstrong. The incentives for tax planning[J]. Journal of accounting and economics, 2012(53):391-411.
- [4] Brita Bye, Birger Strøm, Turid Avitsland. Welfare effects of VAT reforms: a general equilibrium analysis[J]. International Tax and Public Finance, 2012, 19(3):368-392
- [5] Christian Amand. VAT on financial services: the unanswered questions[J]. Journal of the Academy of European Law, 2008, 9(3):357-376