《China counts on aggressive tax cut to spur economy》

BEIJING, May 3 (Xinhua) -- As the biggest tax cut in U.S. history has a domino effect on the rest of the world, China may be about to become more aggressive in cutting its taxes to stay competitive.

China has been trying for years to reduce business costs. May 1 is the one year anniversary of VAT reform, which replaced all business taxes with value-added tax, the most significant tax overhaul for two decades.

Tangible goods have been subject to VAT for some time, but the levy on services was imposed on the value of a firm's sales. Such a crude system resulted in a tax on tax. VAT avoids this, as it is applied to the value added at each link in the production chain.

Since last year, taxes on construction, property, finance and consumer service sectors are on value-added, such as the difference between wholesale and final sales price for a retailer.

According to the State Administration of Taxation, VAT reform cut roughly 680 billion yuan (100 billion U.S. dollars) of tax for business, with some 98 percent of them feeling the difference.

The reform is an attempt to reduce the burden on service industries, which have historically paid a disproportionate share.

In 2016, the number of newly-established businesses in the service sector increased by a brisk 25 percent, hiring 43.5 percent of the labor force, compared with 36 percent in 2012.

Auto maker Geely has benefited from the reform. Li Shufu, chairman of Zhejiang Geely Holding Group, said the new tax scheme eased corporate payment by nearly 493 million yuan in 2016. That gives the company more leverage to increase spending on research.

To fulfill its promise of around 350 billion yuan tax cuts in 2017, government announced new measures in April. From July 1, value-added tax will be simplified, small businesses will enjoy more income tax incentives, and pre-tax deductions for innovation-based tech companies will rise.

"We must cut non-tax charges along with cutting taxes to reduce the burden on enterprises and raise their competitiveness. The government is responsible for creating a sound environment to achieve these goals," Chinese Premier Li Keqiang said at a State Council meeting in April.

In late April, the U.S. government unveiled the biggest tax cut plan in U.S. history. It plans to reduce the number of income tax brackets and lower the tax on corporations from 35 percent to 15 percent.

While any change to U.S. taxes still needs to be approved by Congress, it could see a wave of companies move back to the United States from overseas.

Liu Xuezhi, an analyst with the Bank of Communications, said the U.S. tax overhaul is expected to reshuffle the global business environment. China needs more tax cuts to stay competitive.

Compared with the United States, China's tax policy is not aggressive enough, he added.