

Tax, Small Business, Growth:

effect of taxation on investment and cross-border trade

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Three Points:

- . *The role of taxation on development of SME and economic growth;*
- . *The status-quo of China's SME development;*
- . *The choice of taxation policy to improve the cross-border investment and trade of SME;.*

The role of taxation on development of SME and economic growth

- The important role of SME in the economic growth:

employment , technology innovation, social stability, and economic growth etc.

- The problems confronted by SME:

asymmetry of financing information, high risk of investment and business operation, positive externality of technology innovation

The role of taxation on development of SME and economic growth

❖ Taxation is popular instrument used by government to develop SME:

. Improve tax environment for SME by tax reform and modernization of tax administration

. Taxation incentive policy adopted to resolve bottle-neck problem faced by SME

. Bilateral and multilateral tax coordination has been strengthened

The status-quo of China's SME development

- ❖ SME development contribute to national economy: 42 million units, 58% of GDP , 50.2% of total taxation revenue, 75% of total urban newly employment; 75% of technology innovation
- ❖ Cross border economic activity of SME: 25 thousand units; account for 68% total export; target region and area expanding; oversea IPO accelerated;
- ❖ Disadvantage of SME: shortage of ability of international management and human capital; weak oversea operation network ; financial problem, etc. no enough tax information, double taxation, no professional tax consultancy, weak tax planning , high taxation cost

The choice of taxation policy to improve the cross-border investment and trade of SME.

➤ **Construct a fair tax competition environment for SME**

. China is undertaking its taxation reform step by step, including unify taxation system for various enterprise, abolish some tax incentive policy, absolve the double taxation problem for individual proprietorship and partnership enterprise, for the purpose of construct a standard and fair taxation legal environment.

The choice of taxation policy to improve the cross-border investment and trade of SME

- **against harmful taxation competition, reduce the adverse effect of taxation on cross-border investment and trade.**
- *taxation competition getting intensive . Harmful tax competition decrease the efficiency of global resource allocation. China insist on the taxation transparency principal, call for preventing such taxation competition as “beggar-thy-neighbour”, try to reduce the adverse effect of taxation on cross-border investment and trade and provide a good international taxation environment for SME cross-border investment and trade.*

The choice of taxation policy to improve the cross-border investment and trade of SME.

➤ **tax should not be the obstacle for cross-border investment and trade of SME**

tariff barrier waded, while taxation friction and contradiction in other indirect tax or direct tax area will be emergeing because of the difference of various countries' taxation jurisdiction. international taxation coordination is highly needed. Domestic taxation law and taxation service and administration is also needed improved to facilitate the cross-border investment and trade.

The choice of taxation policy to improve the cross-border investment and trade of SME.

➤ taxation policies adopted to encourage SME technology innovation :

eg: we are implementing VAT transformation from production type VAT to consumption type VAT, providing additional deduction of R&D, low tax rate for High-tech industry, exemption and reduction tax policy for encouraging science and research product transformation, all of which is good to encourage technology innovation of SME.

The choice of taxation policy to improve the cross-border investment and trade of SME.

➤ taxation policies adopted to encourage financing to SME :

eg: we regulated that any financial corporation who provide guarantee for loans to SMEs can enjoy exemption of business tax, and venture capital who invest in high-tech SME can enjoy the tax deduction with the amount equal to 70 percent of the investment value. Market entity who donate to the scientific SME technology innovation funds can enjoy tax deduction.

The choice of taxation policy to improve the cross-border investment and trade of SME

➤ taxation policies adopted to encourage human capital training.

Eg: we improve the income tax incentive policy for high-tech talents and increase the tax deduction related to employee education fee.

the construction of the external environment for SME's cross-border operation is a systematic project. Besides the taxation environment, it includes the improvement of social service system such as information share, management guide, vocational training, consulting etc, and also it includes credit rating system, overseas investment insurance system, financing system, etc. .

Thank You

