



Feasibility Study on Tax Planning Methods

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Abstract. In recent years, the taxation legal system has been continuously promoted by the administration for the rapid development of enterprises. Meanwhile, the enterprise managers have paid more attention to the tax planning issues. In previous studies, researchers placed emphasis on the theoretical basis, ignoring their feasibility in practice. Hence, a method was proposed in this work to apply the tax planning theory to practice, making the tax planning theory implemented.

Keyword: Tax planning method · Feasibility study · Measures and suggestions

1 Introduction

1.1 The Necessity of Tax Planning for Companies

In recent years, the macro economy of China has developed rapidly, contributing the rapid development of the enterprises. This situation makes many problems occurred, such as heavy tax burden. The heavy tax burden will hinder the development of companies and have a negative impact on their operation. Especially in the period of rapid changes in tax policies, it is difficult for companies to plan tax payments scientifically and reasonably. The tax reform policies formulated by the administration with the original intention of “relieving tax burdens and promoting development of companies “. However, the tax burden was not eased for some companies actually, on the contrary, the tax amount increased.

The tax planning behaviour [1] of a company is conducive to improving its own strength, reducing the financial burden, standardizing the enterprise management system, improving the level of financial management and the technical literacy of the accountants. Meanwhile, when taxpayers make tax planning, they can also verify whether the various policies and regulations issued by the government meet the needs of the development of the market economy, supervise the government’s macro-control, and promote the construction of the social rule of law. Of course, tax planning aims to optimize the economic behavior of companies within the scope permitted by laws and policies [2], prevent companies from evading taxes or adopting illegal economic behaviors to reduce taxes, enhance their concept of the rule of law, and improve their consciousness to pay reasonable taxes.

1.2 The Feasibility of Tax Planning for Companies

The Chinese administration has been continuously promoting the formulation of tax laws, especially in the period of the epidemic in the past two years. As a result, all companies need to optimize their tax planning by taking advantage of these preferential policies. At the same time, the country also needs these policies to promote changes in the industrial structure.

From the perspective of the government, any production and operation activities of enterprises must comply with the legal provisions, but with the improvement of corporate governance mode and the improvement of financial management level, tax planning has been recognized by the law, which is not equivalent to tax evasion and other illegal acts, but is conducive to improving the level of enterprise management, reducing the cost of tax payment, and realizing the maximization of enterprise value.

2 Common Mistakes in Tax Planning

2.1 Meal Fees Do Not Distinguish Actual Use

Business entertainment expenses refer to entertainment expenses paid by enterprises for the reasonable needs of production and business operations. However, neither the financial accounting system nor the tax law has clearly defined the specific scope of business entertainment expenses. Therefore, many corporate accountants directly include all meal expenses as business entertainment expenses, resulting in the cost exceeding the standard. However, in normal operation, meal expenses can be calculated separately according to their specific usage, and should not be generalized.

2.2 All Deductible Items Are Not Deducted When Prepayment Is Made

There are many items that corporate income tax can be deducted before tax. Whether the accountant can deduct all deductible items in each advance payment will directly affect the amount of income tax paid each time, which will help enterprises save working capital and increase the time value of funds.

2.3 Failure to Adjust Business Activities in Accordance with Changing Tax Policies

In 2022, as a new round of epidemic swept across, the State Administration of Taxation also formulated a series of policies on further tax reduction and fee reduction, and corporate accountants should keep abreast of the changes in these tax policies.

2.4 Inappropriate Use of Accelerated Depreciation Policy

Accelerated depreciation can reduce the tax paid by the enterprise for a period of time, in essence, it only reduces the income tax that should be paid in the early stage of investment, which is conducive to alleviating the financial pressure of the enterprise in the start-up period; On the other hand, when the company makes a profit in the later period, the deductible depreciation amount will also decrease accordingly, which will lead to the company spending more corporate income tax.

3 Feasibility Analysis of Tax Planning Methods

3.1 Enterprise Splitting May Lead to Business Failure

Accountants should pay attention to the total assets of the company and control the scale of its assets when they make accounts every month. When the total assets or operating income exceed the standard, the company should be split reasonably to avoid tax effectively.

But in fact, through the questionnaire survey of 30 small and medium-sized enterprises, we found that no company chooses to save tax by splitting companies, except one company with obvious upstream and downstream production relations. After communicating with company managers, we found that they believed that if the enterprise adjusts the transaction mode, structure and commercial arrangement according to the planning plan, a series of non-tax costs may also occur, especially the investment in the establishment of a new company. These expenditures may be higher than the money saved by tax planning, and even these factors are not well coordinated, it is easy to cause the original company to fail.

Coupled with Xueli and Weiya, who were banned last year, they split up their huge businesses by setting up a number of sole proprietorship and partnerships to make them meet the low tax rate for sole proprietorship [3]. As a result, many business managers believe that the risk of a business spin-off is too great, and the input and output are disproportionate to the tax savings.

Therefore, it is not a good ideal to split the company blindly in tax planning. The managers should plan for the needs of business strategy [4].

3.2 Whether to Choose Separate Accounting for Mixed Sales and Concurrent Operations

When a taxpayer has a concurrent or mixed sales business, it needs to apply a higher tax rate when accounted them separately. Therefore, the administration encourages the taxpayers to separate the accounting business to reduce the tax burden.

However, in daily operations, the company may still be unable to separate accounting due to a series of considerations, such as the stability of the business model and changes in actual conditions, although an independent part of the service may bring a lower tax burden. For example, when a company has concurrent operations or mixed sales, the low tax rate only occupies a small share. Therefore, separate accounting will not bring obvious tax advantages, but cause the company to invest higher labour costs. In addition, separate accounting could not pass the inspection of the tax authorities, so in order to separate the two businesses, company managers may need to set up separate agencies to operate, and then return to the previous problem of enterprise splitting.

Meanwhile, the separate accounting of the company's side-operated business may also bring about the risk of illegal transfer pricing. For example, if the sales and installation services of air conditioners are separately accounted for according to the side-operated business, the value-added tax will be calculated as 13% of the production cost of the air conditioner, and recognize all the remaining income except the cost of air-conditioning as labour installation income. The applicable rate is 3%. The differences

between the production cost and the market price will directly “save” 10% of taxes and fees. “Planning” through “transfer pricing” usually faces the risk of infringing administrative liability or even criminal liability, and companies should treat it with caution.

3.3 The Tax Rate of the Enterprise Is Too Low After the Planning

In fact, the perfect planning method does not exist. It is very likely that the company’s tax planning plan has been implemented very successfully in the early stage. However, in the end, the company’s actual tax burden rate is too low without suitable reason, which will easily cause national taxation’s inspection and audit. It will cause a series of penalties when the flaws in the company’s tax planning found.

4 Reasons Why Planning Method Is Not Feasible

4.1 The Company’s Management Has a Certain Deviation in Understanding the Concept of Tax Planning

The management of the company thinks that tax planning is only the work of the tax department, which only needs to carry out simple tax treatment, and thinks that ordinary accountants can deal with it, thus ignoring the integrity of the tax work. Many schemes require the tax department to complete independently, and the resources given are relatively single, which is not conducive to the work of the tax department.

4.2 Lack of Professional Tax Planning Staff

Although many companies have established financial departments, they do not dedicated tax planning departments. The lack of communication between the management and the financial staff, also the professional knowledge, could not attract the attention of the financial department, thus preventing the company from carrying out the planning work.

Many enterprises’ tax declaration work is concurrently held by financial personnel. In view of their daily work, it takes a lot of time and energy to complete simple financial work, let alone tax planning, such a demanding and difficult work.

The financial personnel of many companies have limited understanding of tax policy, limited experience, limited knowledge level, and insufficient mastery of theoretical knowledge. Their technical ability cannot meet the requirements of tax planning work, and they cannot carry out tax planning scientifically and reasonably.

4.3 Frequent Tax Policy Changes

In the past two years, due to the impact of the epidemic, China’s tax policies and related laws have been continuously adjusted in different regions and industries. Some policies have strong regional, industry and time nodes, out of corporate control.

At the same time, although the state has provided tax planning space for enterprises as much as possible while improving tax policies and laws, enterprises themselves should also focus on development, which brings more difficulties to tax planning, it also puts forward higher requirements for the working ability of enterprise accounting, increasing more job risk.

5 Apply the Tax Planning Theory to Actual Operation

5.1 The Company Trains Specialized Tax Planners and Teams to Design a Systematic and Effective Tax Plan

On the basis of continuing accounting education, corporate financial personnel also need to keep abreast of the latest tax laws and regulations. In practice, tax planning measures without any tax-related or legal risks basically do not exist, and tax-related legal risks are accompanied by the whole process of tax planning. Therefore, the short-term financial professional knowledge training does not allow accounting practitioners to have sufficient understanding of tax risks. And those accounting practitioners who do not know enough about tax planning will violate administrative responsibility or criminal responsibility. Therefore, the company must go through years of training to form a team of professionals with tax planning and practical knowledge. According to the specific operating conditions of each company, company managers should do a good job in tax planning research, and formulate correct tax planning methods. On this basis, company business could be arranged reasonably.

One of the most important features of tax planning is its legitimacy, which means that the tax planning measures must not violate the existing tax system or deviate from the original intent of the legislation. However, at the most basic level, tax law and tax evasion can also be transformed into each other under certain circumstances. Sometimes the distinction is unclear, and even one method that is correct in one country may be illegal in another. This requires the tax planners to fully grasp the applicable tax law system, understand the power and significance in the tax law, and make the tax plan be implemented in the correct situation before formulating the tax plan method.

5.2 The Enterprise Strengthens Internal Control Management to Enable It to Have the Ability to Implement the Plan

Tax planning is a comprehensive work [5], requiring the joint participation and coordination of all parts of the company. Only by preparing in advance can you truly do tax planning. Therefore, companies should establish and improve the internal control system to promote the stable operation of enterprises and the implementation of tax planning plans.

The internal management of the company [6] is a comprehensive work that requires the cooperation of all departments. It is necessary for improving the feasibility and efficiency of tax planning to select an appropriate internal management plan, establish an internal management system of the enterprise, and strengthen the supervision of the management of each link. Although the company's financial department is mainly responsible for the implementation of the tax planning plan, it also needs the cooperation and assistance of other departments of the company.

5.3 The Administration Should Popularize the Knowledge of Tax Law and Improve the Environment of Good Tax Law

Facing the common problems of some domestic enterprises, the tax authorities can hold some business training seminars in a targeted manner to increase the attention of

company managers to tax planning issues, timely follow up the changes of the times, adjust the economic structure, and plan the enterprise financial affairs. It is also important to manage and formulate standard business procedures to adapt to the reform of fiscal and taxation systems.

At the same time, the administration should improve the relevant tax law system. On the one hand, it should strengthen legislation, and implement the formulation of tax provisions as soon as possible in response to the various tax laws in my country. According to the actual situation, optimizing the vague or controversial provisions, implementing them in social practice, improving legal experience continuously and avoiding unreasonable legal judgment and understanding would have a positive effect on the tax planning. On the other hand, the tax authority needs to supervise as much as possible whether the business activities of the company are reasonable and legal, and whether there is any illegal phenomenon in tax planning and other economic behaviour. Only in this way can we enhance the consciousness of companies to avoid tax in a legal and reasonable way, and allow them to actively participate in the management of a reasonable and legal planning system.

6 Conclusion

The continuous improvement of Chinese preferential tax policies has greatly reduced the tax burden of companies in terms of value-added tax and income tax. This work lists the common tax planning methods used by companies, and analyzes whether these methods are feasible in actual situation. Successful tax planning should analyze the actual situation according to its own business conditions instead of copying the past planning methods. The financial personnel who have designed a systematic and feasible plan should also strengthen the internal control management so that they have a strong ability to implement the plan.

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