Research on Enterprise Income Tax Planning of H High-Tech Company

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Abstract. Tax planning is to make reasonable planning for all business activities of enterprises under the precondition of following the tax laws to promote the comprehensive value of enterprises to flourish. High-tech enterprises are an important driving force for social and economic development[1]. Facing the innovative and competitive market, high-tech enterprises must carry out a series of tax planning to reduce the tax cost if they want to obtain a certain competitive advantage[2]. This paper takes H high-tech company as an example to carry out tax planning for the company's corporate income tax so that the company can minimize the tax cost and maximize the value of the company.

Keywords: tax planning, enterprise income tax, high-tech enterprises

1 Introduction

With the development of science and technology, high-tech enterprises gradually grow and play a vital role in the market economy[3]. The operating profit of high-tech enterprises is increasing, and the tax burden they bear is getting bigger and bigger. A good tax planning program can save a lot of money for enterprises, so high-tech enterprises pay more and more attention to tax planning. Under the current market conditions, tax planning can not only help enterprises but also optimize the industrial structure, improve the tax law system, and promote the national macro-control[4]. Among all taxes, enterprise income tax is the second largest tax after value-added tax. Therefore, this paper conducts income tax planning research on H high-tech enterprise, so that the enterprise can minimize the enterprise income tax burden under the effective tax incentives, and better promote the enterprise's steady and fast healthy growth.

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2 H High-tech Company Tax Status Analysis

2.1 Basic Situation of H High-Tech Company

Founded in 1999, Company H is a high-tech listed enterprise with its main business covering the fields of intelligent finance, transportation, public safety, and new retail. To understand the ability of H company to gain profit, it is analyzed through the gross profit margin and net profit margin indicators in the past three years.

Table 1. Company H's gross and net profit margins for the last three years(unit: million)

	2020	2021	2022
Revenue	6496	6411	6782
Business Cost	3964	3854	4127
Gross Margin	38.98%	39.88%	39.95%
Net Profit	758	700	704
Net Interest Rate	11.18%	10.92%	10.84%

Source: Company H financial statements and related calculations

Table 1 shows that Table 1, Company H's operating income in the past three years is a growing trend, which is 6,496 million dollars in 2020 and rises to 6,782 dollars in 2022. Although the operating profit is a rising trend, the net profit does not rise with it. After the decline in net profit in 2020 due to the impact of the new crown epidemic, it still did not rebound in 2022, resulting in a continuous decline in net profit margin for three years. On the other hand, the company's gross profit margin is rising in the past three years, indicating that the growth rate of the company's expenses exceeds the growth rate of operating income, and the company's expenses are not well controlled[5].

2.2 Enterprise Income Tax Payment of H High-Tech Corporation

The company has been recognized as a high-tech enterprise since 2008, so the enterprise income tax is reduced by 15%.

Table 2. Corporate income tax and total tax payable of Company H (unit: million)

	2020	2021	2022
Corporate Income Tax	61	75	92
Negative Enterprise Income Tax Rate	0.90%	1.17%	1.42%
The total taxes payable	141	143	191
The total negative tax rate	2.08%	2.23%	2.94%

Source: Company H's annual report and related calculations.

Table 2 shows that both the total negative tax rate and the negative corporate income tax rate of Company H have been increasing in the last three years. According to the above analysis, Company H's net interest rate has been decreasing in the last three years, and at this time, the negative tax rate has also increased, which indicates that there is tax pressure on the company and there is a space for tax planning.

3 H High-tech Company Enterprise Income Tax Planning Program Design

3.1 Fixed Assets Tax Planning

Since the value of fixed assets is highly susceptible to external circumstances, the choice of depreciation life and method both have a significant impact on the calculation of their depreciation amount[6]. Therefore, regarding the planning of fixed assets, there are various ways to consider. According to the provisions of the tax law, for fixed assets that are rapidly updated due to technological progress and product replacement, enterprises can adopt accelerated depreciation or shorten the depreciation period. Company H is a high-tech enterprise and the fixed assets it owns are upgraded at a faster rate, so it enjoys the incentives. Based on the investigation, it was found that Company H purchased a piece of specialized equipment worth 6 million yuan at the end of 2021 with a depreciable life of 5 years and an estimated net salvage rate of 10%, and put it into use in 2022. By reviewing Company H's 2022 enterprise income tax return, it was found that the fixed asset was still being phased in using the straight-line method. The equipment's depreciable life can be shortened to 3 years if it is depreciated under the shortened depreciable life method. Therefore, for this fixed asset, the company can use the straight-line method, the logarithmic method, the double-declining-balance method, and the reduced depreciation method to accrue the discount. The planning for different depreciation methods is shown in the table below.

Table 3. Comparison of different depreciation methods (unit: million)

	2022	2023	2024	2025	2026
Straight-line method	1.08	1.08	1.08	1.08	1.08
Logarithmic method	1.80	1.44	1.08	0.72	0.36
Double-declining balance method	2.40	1.44	0.864	0.348	0.348
Reduced depreciation method	1.80	1.80	1.80	0	0

Source: Company H's annual report and related calculations.

Table 3 shows that the final accumulated depreciation amount is the same for different depreciation methods, but the difference lies in the different amounts of depreciation charged each year, which affects the income tax liability for that year. In 2022, the pre-tax deductible expense is $1.08 million under the straight-line method, $1.8 million under the logarithmic method and reduced depreciation method, and $2.4 million under the double-declining balance method. Which depreciation method to use for this asset should be considered based on the company's situation. If Company

H wants to maximize tax benefits in 2022, it should use the logarithmic method of depreciation. If Company H wants to maximize tax benefits in the next three years, it can use the Reduced depreciation method. However, for either method, the company will accrue more depreciation in 2022 than it would if it used the straight-line method and the corresponding corporate tax liability will be reduced.

3.2 Tax Planning for R&D Expenses

To further encourage high-tech enterprises to increase investment in R&D expenses, the percentage of high-tech enterprises enjoying additional deduction for R&D expenses has been increased from 50% to 75%, and this policy is extended to 2022. Therefore, for high-tech enterprises, when the R&D expenses incurred in carrying out activities do not form intangible assets and are directly recognized in the current period's profit and loss, they can be deducted from the current year's taxable income by 75% of the actual amount incurred in the current year. If intangible assets are formed, they are allowed to be amortized at 175% of the cost of forming the intangible assets before tax. To facilitate Company H's tax planning, the company needs to establish R&D expense auxiliary books in conjunction with R&D activities, as well as implement special management for different projects. According to the R&D expense auxiliary book, it is found that there are 2.8 million expenses in Company H in 2022 that have not been recognized as R&D expenses. According to the additional deduction of R&D expenses, it can be seen that in 2021, the company's R&D expenses can be deducted 2.8*75%=2.1 million yuan more, and the enterprise income tax can be reduced by 2.1*15%=315,000 million yuan.

3.3 Tax Planning for Endowment Expenses

According to the Tax Law, public welfare donations made by enterprises in the name of public welfare organizations or the government are allowed to be deducted in the amount not exceeding 12% of the total profit for the year when calculating the enterprise income tax. At the same time, more than 12% of the taxable income can be carried forward for deduction within three years, thus encouraging enterprises to fulfill their social responsibilities more actively. Company H actively undertakes social responsibility. Affected by COVID-19, Company H 2021 donated 500,000 yuan of masks, alcohol, and other supplies to the local school. However, this donation is made by the enterprise directly to the local school without going through the public welfare organization, so it cannot be deducted before tax. If the enterprise changes the donation method, for example, through the local Red Cross to donate the supplies, then the 500,000 yuan can be deducted before tax, so that in 2021 can also reduce the payment of corporate income tax by 500,000 * 15% = 75,000 yuan.

3.4 Analysis of the Expected Effect of Tax Planning

The above scenario optimizes the tax planning problem of Enterprise H in 2021 and 2022 in terms of depreciation of fixed assets, R&D expenses, and donation expenses, which can be compiled in Table 4 below.

Table 4. Table of Expected Effects of Tax Planning in 2021 (unit: million)

Year	2021	2022			
Planning projects	Donation expenditure	Fixed asset			R&D cost
Planning methods	Through public service organizations	Double-declining balance method	logarithmic method	Reduced depreciation method	Specialized management
Deductible amount before planning	0	1,080,000			x(1+75%)
Deductible amount after planning	500,000	2,400,000	1,080,000	1,080,000	(x+2800000)*(1+75%)
Difference	500,000	1,320,000	720,000	720,000	2,100,000
Tax saving effect	750,000	198,000	108,000	108,000	315,000

Source: Company H's annual report and related calculations.

If the enterprise carries out tax planning optimization, the enterprise income tax that can be paid less in 2021 is 75,000 yuan. If the enterprise adopts the double declining balance method for fixed assets, the enterprise income tax that can be paid less in 2022 reaches 513,000 yuan, and the tax saving effect is very obvious. After optimizing the tax planning in three aspects, such as the depreciation of fixed assets, R&D expenses, and donation expenses, Company H can reduce the tax burden of the enterprise, thus bringing more benefits to the enterprise. Therefore, tax planning is crucial for a company.

4 Tax Planning Safeguards

4.1 Tax Planning According to Law

Paying taxes by the law is the prerequisite for tax planning, and any behavior beyond the scope of the law is subject to the risk of legal liability[7]. Enterprises should establish a correct concept of tax planning and carry out planning reasonably and legally. Firstly, tax planning should be carried out within the scope permitted by law, and any illegal tax evasion and avoidance behavior should be opposed and prohibited. Secondly, enterprises should provide accounting information according to accounting standards, and providing false information is strictly prohibited. Finally, enterprises must always pay attention to changes in tax regulations.

4.2 Strengthening of Tax Professionals

For high-tech enterprises, the government has launched a lot of tax incentives, which increases the space for enterprise tax planning[8]. For high-tech enterprises, accounting, and tax personnel are also the core personnel of the enterprise. Enterprises should recruit professional talents in finance and taxation and provide them with perfect promotion channels and incentive mechanisms, to improve the motivation and knowledge level of finance and taxation personnel, and standardize the workflow and corresponding mechanism of the finance and taxation departments[9].

4.3 Enhanced Communication with Tax Administrations

Enterprises should strengthen the communication with tax authorities in daily tax declaration and deal with the relationship between tax collection and payment. On the one hand, they can learn about the changes in tax policies from the tax authorities, and obtain authoritative explanations of tax policies from the tax authorities, to adjust the tax planning program of enterprises and avoid understanding deviation. On the other hand, through communication, enterprises can maintain a good relationship with the tax authorities, improve the interaction between tax collection and payment, and realize a win-win situation between enterprises and tax authorities[10].

5 Conclusions

This paper analyzes the tax problems of H high-tech company and designs the tax plan for the company's corporate income tax from 2021 to 2022 in terms of depreciation of fixed assets, research and development expenses, and donation expenses. It provides valuable suggestions for the company to reduce its tax burden in the future and analyzes the company's tax planning safeguards so that the company can minimize its tax cost expenditures by the law, improve the economic efficiency of the enterprise, and promote the healthy and sustainable development of the company. The article also inspires other high-tech enterprises to make full use of tax incentives for tax planning, so as to achieve the purpose of reducing the corporate tax burden and maximizing corporate value.

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