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Tax Problems of Small and Medium Sized Private Enterprises

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Abstract. In China's economic system, small and medium-sized private enterprises occupy an important position, contributing a large amount of tax revenue, GDP and providing many jobs. However, due to their size and governance structure characteristics, there are shortcomings in tax risk management, and the risk of tax-related violations restricts their development. This study takes small and medium-sized private enterprises as the target, clarifies the enterprise size standard according to the relevant classification method, and analyzes its tax risk. The study finds that there are problems such as weak awareness of tax risk management among managers, failure to set up assessment and control mechanisms, poor communication of tax information, and the impact of uncertainty in the economic environment. In this regard, the study proposes countermeasures such as enhancing tax management awareness and planning ability, standardizing accounting and invoice management, strengthening communication and cooperation with tax authorities, and rationally responding to changes in the economic environment. The research results provide a management paradigm for SMEs to modernize their tax governance and increase efficiency in compliance and have certain policy revelation value for optimizing the business environment.

Keywords: Small and Medium Sized Private Enterprises, Tax Risk Management, Problems and Countermeasures, Compliance and Efficiency Improvement

1 Introduction

For enterprises, tax management throughout all aspects of business activities, from procurement, production to sales, from investment decisions to profit distribution, tax treatment is directly related to the appropriate or not to the enterprise's cost control, financial position and market competitiveness. Reasonable tax planning can help enterprises reduce tax burden, release more funds for technological innovation, market expansion and other core business, and enhance the endogenous power of enterprise development; on the contrary, once the tax risk breaks out, enterprises may face adverse consequences such as fines, late payment fees, damage to the reputation, and in serious cases, even jeopardize the survival of the enterprise.

Small and medium-sized (SME) private enterprises occupy a pivotal position in China's economic system and are an important force in promoting economic development

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and social stability. In terms of quantity, These companies account for a very high proportion of market players, and are widely distributed in many fields such as manufacturing, services and retailing, becoming the capillaries of economic development and injecting a constant stream of vitality into the market. In terms of economic contribution, according to relevant statistics, small and medium-sized enterprises (SMEs) in China contribute more than 50% of the tax revenue and 60% of the GDP. In the manufacturing industry, for example, many small and medium-sized private enterprises have focused on niche areas and, with their flexible business mechanisms and keen insight into the market, have produced a large number of products that meet the diversified needs of the market, thus promoting the prosperity of the manufacturing industry. In terms of absorbing employment, SMEs have provided 80% of urban jobs, becoming a key force in easing employment pressure and safeguarding people's livelihoods. These companies accommodate a large number of laborers, including graduates entering the workforce and rural transfer laborers, and make important contributions to social stability and harmony. At the same time, small and medium-sized private enterprises are also active subjects of innovation, constantly exploring technological innovation, business model innovation, etc. Many new technologies and services were first born in small and medium-sized enterprises, providing a power source for industrial upgrading.

With the acceleration of economic globalization and the continuous adjustment of domestic economic structure, the market environment has become increasingly complex and volatile. Tax policies are frequently adjusted to meet the needs of economic development, which makes small and medium-sized private enterprises face many challenges in tax treatment [1]. On the one hand, the awareness of tax risk management of enterprise management is generally weak, and many founders of enterprises lack in-depth understanding of tax laws and regulations and tend to ignore tax factors in the decision-making process of enterprise operation, which leads to irrational tax planning and increases the tax costs and risks of enterprises. On the other hand, most of the small and medium-sized private enterprises have not established a perfect tax risk assessment and control mechanism, and manager lack scientific assessment methods and effective means of response, which makes it difficult for them to detect and deal with potential tax risks in a timely manner. At the same time, poor communication of tax information is also a prominent problem. Enterprises have difficulties in interpreting tax policies, and communication with tax authorities is relatively passive, resulting in enterprises being unable to adjust their tax strategies in time when tax policies change, which makes them easy to fall into tax risks. In addition, the uncertainty of the economic environment further exacerbates the difficulty of corporate tax management, as factors such as market fluctuations and changes in the prices of raw materials may affect a company's tax position.

This study aims to deeply analyze the root causes of these problems and explore practical solutions by combining theoretical analysis with actual cases. Helping small and medium-sized private enterprises build a perfect tax risk management system by enhancing their tax management awareness, optimizing accounting and invoice management processes, strengthening communication and cooperation with tax authorities, and effectively responding to changes in the economic environment. This not only helps to reduce the enterprise's tax risk and protect the stable operation and sustainable development of the enterprise, but also can provide other small and medium-sized enterprises (SMEs) with experiences and models that can be learned from, promote the healthy development of the entire group of SMEs, and is of great practical significance in optimizing the business environment and promoting the high-quality development of the economy.

2 Definition and Characteristics of SME Private Enterprises

2.1 Definition

According to the notice of the National Bureau of Statistics on the issuance of the Measures for the Classification of Statistically Large, Small, Medium and Micro Enterprises (2017), China defines small and medium-sized enterprises in different industries according to the three indicators of business revenue, the number of people employed and the total amount of assets: small-sized enterprises are defined as those with a business revenue of 50-60 million yuan , the number of people employed in the range of 10-300 people and the total amount of assets in the range of 3,008,000 yuan ; Medium-sized enterprises are defined as those with revenues of 500-200,000,000 yuan, employing 20-2,000 people, and with total assets of 5,000-120,000,000 yuan.

2.2 Characteristics

Small and medium-sized private enterprise regulations and operations are more flexible, small and medium-sized enterprises in the setup of rules and regulations are usually not as large enterprises more standardized and complete, so to cope with the rapid changes in the market, small and medium-sized enterprises can reduce the time and energy spent in the compliance process, and quickly according to the market changes in adjusting the business strategy to meet market demand.

Small and medium-sized private enterprises tend to use affection and friendship as their management mode [2]. In this model, it is difficult to separate the operation and ownership of the enterprise, the cohesion and intrinsic motivation of the management is stronger, and the speed of formulating the operation plan as well as the flexibility will be enhanced accordingly. However, this management mode is subject to the manager's personal subjective influence of the lack of scientific decision-making mechanism, but also because of its family relationship to form the phenomenon of xenophobia, which is not conducive to the introduction of external talent, thus limiting the ability of the enterprise's future development. Small and medium-sized private enterprises are large in number, involved in a wide range of industries, relatively scarce in human, material and financial resources and other resources, prone to internal rules and regulations are not sound, lack of innovation, poor management of funds and so on, so there is a general so there is a general operational inefficiency, market adaptability is poor, anti-risk ability is weak, and so on a series of constraints on the long-term development of the enterprise difficult problem

3 Problems

Tax risk refers to the risk of legal sanctions, financial loss or reputational damage that an enterprise may face due to its failure to properly and effectively comply with the provisions of the tax law in its tax-related behavior. And the causes of tax problems in small and medium-sized enterprises are caused by the enterprise tax risk is affected by its internal and external factors [3]. Internal factors, the management of the enterprise if the lack of attention to tax, tax awareness is weak, the relevant financial personnel of the enterprise is not enough professional quality, knowledge update is not timely, etc. will affect the accuracy of tax processing. From the viewpoint of external factors, the tax policy constantly adjusts and changes, but will make it difficult for enterprises to adapt to increase the enterprise's tax risk; the fluctuation of the general economic environment also brings challenges to the enterprise's tax.

3.1 Weak Awareness of Tax Risk Management among Managers

In general, the top management of private small and medium-sized enterprises is mainly the founder of the enterprise, who is not familiar enough with tax laws and regulations, and has a weak awareness of tax risk management, resulting in the enterprise has not established a specialized tax department [4]. Taxes are usually managed by the finance department, to the extent that tax considerations may be overlooked in major operational and investment decisions resulting in adverse consequences. Enterprises may also face tax risks due to tax irregularities, non-compliance and loopholes, such as false invoicing and tax evasion, which will seriously affect the normal operation and development of enterprises.

3.2 Failure to Establish Tax Risk Assessment and Control Mechanisms

It refers to the failure of an enterprise to establish a sound and systematic tax management framework, and the absence of a scientific assessment methodology and control means to comprehensively assess the risks that may arise for the enterprise in terms of taxation [5]. And most of the financial and management personnel of SMEs lack professional knowledge and do not have a deep enough understanding of tax regulations and policies, so that managers are unable to detect and deal with tax risks in a timely manner when faced with them [6].

3.3 Poor Communication of Tax Information

Without the establishment of a perfect tax information management system, the tax authorities may mostly issue policies in the form of documents and announcements that are difficult to be interpreted by the enterprises, so in the face of routine inspections and tax audits, the enterprises are usually in a passive position and are unable to put forward timely, legitimate and reasonable counter-opinions and proposals to deal with the relevant issues appropriately. In addition, the communication between many small and medium-sized enterprises and the competent tax authorities is also very lacking and passive, the tax authorities, in addition to tax-related business or risk suspects, to take the initiative to contact the enterprise [7]. Companies hardly ever initiate communication and exchange with the tax authorities. It is due to the lack of timely communication and exchanges between enterprises and tax authorities, in the face of changes in tax policy, enterprises fail to understand the new policy content in time and form tax risks.

4 Countermeasures

4.1 Enhance Tax Management Awareness and Planning Ability

Enterprise management should actively participate in tax training, deeply understand the importance of tax management, and take the lead in paying attention to tax work. At the same time, carry out tax education for all employees, popularize tax knowledge, let employees establish tax compliance awareness, create a good tax management atmosphere, and build the ideological foundation of enterprise tax management. It is necessary to establish correct tax planning concepts, legal compliance planning, and avoid excessive planning risks [8-9]. Reasonable use of preferential policies such as additional deduction for R&D expenses and tax breaks for small and micro-profit enterprises, and arrangement of costs and expenses through accelerated depreciation and reasonable sharing of expenses to reduce tax burden and improve economic efficiency.

4.2 Standardizing Accounting and Strengthening Invoice Management

Construct a perfect financial system, strictly standardize the accounting process, and ensure that the financial information is accurate and complete. Regularly organize training for financial personnel to improve their business level and professional ethics, so that financial staff can skillfully apply financial standards, accurately carry out accounting, and provide reliable data support for tax management. It also establishes a sound invoice management system, standardizes each link of invoice issuance, acquisition and storage, and clarifies the operation process and the responsible body of each link [10]. Strengthen the invoice audit work, strictly review the authenticity and legality of invoices, eliminate false invoices and non-compliant invoices into the accounts, and effectively prevent invoice risks.

4.3 Strengthening Communication and Cooperation with Tax Authorities

Pay close attention to changes in tax policies, actively participate in training activities organized by tax authorities, and keep abreast of policy developments to ensure that the tax treatment of the enterprise is in line with policy requirements. The corporation take the initiative to communicate and coordinate with the tax authorities, and when encountering tax problems and disputes, it is necessary to seek proper solutions in a timely manner to avoid the deterioration of the problems and maintain good tax-enterprise relations.

5 Conclusion

Small and medium-sized private enterprises (SMEs) are a key force in the economy, contributing significantly to the areas of tax revenue, economic growth and employment. However, due to its size and the characteristics of its governance structure, tax risk management is plagued by many problems, including insufficient management awareness, lack of assessment and control mechanisms, impeded information communication, and interference from unstable factors in the economic environment, which have seriously hampered the sustainable development of the enterprise. This study defines the enterprise scale based on the classification standard of the National Bureau of Statistics, analyzes its tax risk in depth, and puts forward targeted coping strategies, such as strengthening the awareness of tax management, standardizing the management of accounting and invoices, strengthening the communication between tax and enterprise, and reasonably coping with the changes in the economic environment. By constructing a collaborative optimization plan for industry finance and tax, good results have been achieved in actual cases, providing a replicable model for SMEs to modernize their tax governance and increase efficiency in compliance, as well as a policy reference for optimizing the business environment.

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