

## **Discussion on the effect of "to replace the business tax with a value-added tax" to the contract management of the developer**

Liu Hua<sup>1,a</sup>, Huang Xuejie<sup>2,b</sup>

School of management, Xi'an University of Architecture And Technology, Xi'an 710055

<sup>a</sup>tgzy2015@sina.com , <sup>b</sup>1206579537@qq.com

**Keywords:** To replace the business tax with a value-added tax; Contract management; The mode of main contract and subcontract

**Abstract:** With the further deepening of the reform of the tax system, the real estate industry to conduct to replace the business tax with a value-added tax, it is imperative. This paper aims to study the impact of "to replace the business tax with a value-added tax" to the contract management of the developer, and to analyze form the aspects of positive and negative, and to provide suggestions .

### **1. Introduction**

According to our country tax reform plan, "To replace the business tax with a value-added tax" includes the three steps. The first step, in some industries and regions to carry out "To replace the business tax with a value-added tax", Shanghai play as the first pilot cities officially launched this reform in January 1, 2012. The second step, selecting some of the industry in the country carries out pilot. This stage began in 2013, the transport industry and the six parts of the modern service industry promote firstly. The third step, to achieve "To replace the business tax with a value-added tax" in the country[1].According to the current understanding, the industry of the remaining no reform, that is, real estate, finance and other services will be acted uniformly at the beginning of this year. This reform will bring the benefits of all aspects. First of all, it can simplify the tax system, optimize the tax system. Secondly, Business tax rate is low, but the tax burden is easy to pass on downstream, each after a circulation link to pay a tax, repeated taxation problems stand out. "To replace the business tax with a value-added tax" can improve the VAT deduction chain, eliminate double taxation[2-3].So far, there have been many scholars to study this tax reform, and achieved some results. But existing researches are mainly focused on the impact on enterprise development, financial management. About the study of the impact of "To replace the business tax with a value-added tax" to the construction project contract management has not yet started.

### **2. "To replace the business tax with a value-added tax" impacting on the contract management of the developer**

Based on the existing researches and analysis, the real estate industry to implement "To replace the business tax with a value-added tax" will directly cause the cost of the real estate enterprise increasing, and have huge impact on tax and sales of the enterprisedevelopment. During the period of "To replace the business tax with value-added tax", the developer in order to maintain their profit income, they must handle with various contractual relationship between the partners, as far as possible to reduce cost of the contract. For engineering construction projects, the many types and number of contracts involved, this article mainly analyze the influence of "To replace the business tax with a value-added tax" to the materials which provided by the owner, and construction contract management.

#### **2.1. The impact on the contract management of materials which provided by the owner**

The current VAT system in China is divided into general VAT taxpayer and small-scale VAT taxpayer. The critical point of division is 500000 and 800000.Turnover exceed the critical point for average taxpayer, turnover is lower than the critical point belongs to the small-scale taxpayer[4]. Average taxpayer tax rate have two notches of 13%, 17%, and building materials industry rate is

17%; the small-scale taxpayer According to the 3%. The concrete way divided into the following table 1; “To replace the business tax with a value-added tax pilot program ”(CaiShui [2011] No110) have regulations that building industry apply 11% VAT, and applicable general VAT tax. For average taxpayer can open the VAT invoice, the invoice can be as Input tax deduction. And small-scale taxpayers can open commercial invoice, the invoice is not as input tax deduction.

Table 1 General VAT taxpayer and small-scale VAT taxpayer cognizance standard

VAT taxpayer	Small-scale VAT taxpayer	General VAT taxpayer
1. Engaged in the production of goods or providing taxable services of taxpayers, and mainly engaged in the production of goods or providing taxable services, and taxpayers engaged in wholesale goods	Annual taxable sales under 500000 yuan (contain 500000 yuan)	Annual taxable sales above 500000 yuan
2. Wholesale and retail goods of the taxpayer	The annual taxable sales under 800000 yuan	The annual taxable sales above 800000 yuan
3. The people who annual taxable sales exceed other individual small-scale taxpayers standard	According to the small-scale taxpayers	——
4. The non-enterprise unit, and the enterprise that don't happen often taxable behavior	According to the small-scale taxpayers to pay taxes	——

Providing material by owner. It means that in the construction engineering contract, the party with the contractor agreed in advance that the owner provided main materials and engineering equipment. According to the stipulations of article 25 of the "Building law" and "construction engineering quality management regulations of the People's Republic of China" the provisions of article 14, which provided material by owner is legitimate, and allowed. Under the condition of the current sales tax, which provided material by owner include two big industries, construction and sales of goods. After the “to replace the business tax with a value-added tax”, it unified tax involved for the VAT.

The one is the positive effect of “to replace the business tax with a value-added tax” to the contract management of which provided material by owner.

For the newly signed contract that have finished “to replace the business tax with a value-added tax”, the developer in order to obtain the input tax invoice, the materials can procured by themselves, they can choose the supplier that have the general taxpayer qualification, or whether one has general taxpayer qualification as a bid evaluation criteria. Enterprise through the input tax deduction reduce the cost of contract.

The second is the negative effect of “to replace the business tax with a value-added tax” to the contract management of which provided material by owner.

For the contract that have finished the construction before the “to replace the business tax with a value-added tax”, and inter-temporal contracts, due to the selection of building materials are mostly local materials, individual supply, this kind of supplier in addition to the part with the general taxpayer qualification, the most do not have the general taxpayer qualification[5]. They issued the commercial invoice, so the developer cannot input tax deduction. The contract price has not changed, but the items that can be deducted have not completed deduction, the contract costs relative increase. The impact analysis table 2 is as follows:

Table 2 The impact on the contract management of materials which provided by the owner

Type influence	the contract that have finished the construction and have not settlement before the “to replace the business tax with a value-added tax”	The inter-temporal contracts	The newly signed contract that have finished “to replace the business tax with a value-added tax”
Positive impact	no	no	The contract costs lower
Negative impact	The contract costs relatively increased	The contract costs relatively increased	no

2.2 The effect of the “to replace the business tax with a value-added tax” to Construction contract management

The project construction contract, also called building installation engineering contract, whereby the contractor performs project construction, the employer shall pay the price of the contract. The parties to a construction contract are the developer or the party and the contractor. The project construction contract is the main contract for construction project, deeply affected by the “to replace the business tax with a value-added tax”.

The one is the positive effect of “to replace the business tax with a value-added tax” to the construction contract management.

For the new contract, after the "to replace the business tax with a value-added tax "reform is carried, the part of the contractor previously paying business tax will pay value added tax. When the contractor to collect progress payment, the developer can ask contractor to provide the VAT invoice, as the input tax deduction, and decrease the cost of the construction contract.

The second is the negative effect of “to replace the business tax with a value-added tax” to the construction contract management.

### 3 The response of the effect of the “to replace the business tax with a value-added tax” to contract management

#### 3.1 The response of the contract that the materials provided by the developer

For the contract that have finished the construction and have not settlement before the “to replace the business tax with a value-added tax”, whether suppliers can provide value-added tax invoices, its impaction to the project is already established and cannot be changed. For the inter-temporal contract, on the basis of the established suppliers, the developer should as far as possible avoid the request that suppliers improve the price of materials, and firstly settle the completed supply part of the contract.

For the newly signed contract that have finished “to replace the business tax with a value-added tax”. Due to the “to replace the business tax with a value-added tax” is continuing to push forward, expanding around the stage, and five file tax rate, 17%, 13%, 11%, 6% and 3%, construction and real estate industry VAT is expected to be 11%. But various types of goods or services related to the real estate industry, almost all rate is likely to be involved. Corresponding to different tax rates will have completely different deduction results. For the new signed contract that the materials provided by the developer, the main response is to deal with the one points:who purchase, who input tax deduction. The developer by its dominant position will purchase by themselves these materials that be easy to obtain the special invoices for value-added tax, the other materials that be difficult to obtain invoices.

#### 3.2 The response of the construction contract management

For the contract that have finished the construction and have not settlement before the “to replace the business tax with a value-added tax”, the developer units should as far as possible to settle the contract firstly, before the tax reform. To avoid the construction transform the tax burden to the developer by means of contract variation, and resulting contract dispute.

For the inter-temporal contract, the developer units should settle accounts firstly the construction

that have been completed within the scope of the contract before the tax reform, To avoid the construction transform the tax burden to the developer by means of contract variation, and resulting contract dispute;

For the newly signed contract that have finished “to replace the business tax with a value-added tax”. If the developer units will bid in the future, they should require the contractor to provide quotation considering in the “to replace the business tax with a value-added tax”. When the construction units receive the payment, the developer should require the contractor to provide special invoices for value-added tax deduction, to reduce the cost of the construction contract.

#### **4 Conclusion**

This article invest the inter-temporal project during the period of the tax reform. In conclusion, the “to replace the business tax with a value-added tax” have significant influence on the real estate development, profit distribution of each participant, and this effect is mainly realized by the contract. On this basis, this article divide the contract into three kinds. The one is the contract that have finished the construction and have not settlement before the “to replace the business tax with a value-added tax”; the second is the inter-temporal contract; the third is the newly signed contract that have finished “to replace the business tax with a value-added tax”. And the paper mainly analyzes the effect of the “to replace the business tax with a value-added tax” to the materials which provided by the contract and the construction contract, to draw a realistic response.

#### **References:**

- [1]Pan Wenxuan, The Misgivings of Under the Pilot of the“to replace the business tax with a value-added tax”: in some enterprise tax burden “not increasing reduction”phenomenon[J]. Journal of Guangdong College of Business Studies,2013(1):43-49
- [2]Cheng Shuanghua, Introduction to the“to replace the business tax with a value-added tax”Impacting on the Construction of Enterprise Financial Management[J]. The Journal of Accounting and Management, 2013 (2) : 20-21
- [3]FU Duo, The effect of the“to replace the business tax with a value-added tax”to the cost management of construction unit[J]. Journal of Enterprise Economy, 2013, (2) : 377
- [4]Zhao Hui, The effect of the“to replace the business tax with a value-added tax”reform to the real estate enterprises in the future [J]. Journal of Accounting Study, 2013 (6) : 46 to 48
- [5]Zhao Huiyang, The effect and countermeasures of the“to replace the business tax with a value-added tax” to the construction enterprises [J]. Economic Review, 2013 (10) : 177-178