

“Replacement of Business Tax with a Value-added Tax” —A Countermeasure Adopted by Construction Enterprises

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Abstract. Along with the constant development of the socialist market economy, the disadvantages of the traditional business tax collection method, such as frequent repetitive taxing, have begun to arise, increasing the operating cost of enterprises, posing an obstacle to the development of the national economy. In this context, the state has clearly proposed to extend the collection range of value-added tax and reduce business tax. On January 01st, 2012, Shanghai was chosen as the first pilot region for replacement of business tax with a value-added tax, and since then, the range of this replacement has been continuously enlarged, and some part of modern service industry, railway transport industry, postal service industry and telecommunication industry has been successively involved in the pilot change from business tax to value-added tax. According to the original plan, 2015 would be the deadline for the full completion of value-added tax expansion, but from the current perspective, the replacement of business tax with value-added tax may be finished in 2016. With the development of market economy in China, the overall scale of construction industry has been expanded continuously at a low developmental level, and now it's just in the stage of extensive development. The collection mode of construction business tax is a constraint on its development, mainly reflected in repeated taxation and heavy tax burden, etc. The implementation of “change from business tax to value-added tax” policy will emphatically eliminate the existing tax restraints and promote the sound, benign development of construction industry.

Make Tax Planning

11%, a VAT rate currently determined, will greatly increase enterprise tax burden in circulation process no matter whether a tax reform is carried out in a single link or all links. Since construction industry is a micro-profit industry, the reform in value-added tax should be carried out on the premise of not increasing enterprise tax burden. For instance, tax rate should be controlled around 7% if a sing-link reform is carried out in value-added tax, and tax rate should be controlled around 10% if an all-link reform is carried out in value-added tax.

A construction enterprise confirms its income in accordance with *Construction Contract*, and identifies the difference between income amount and Party A's interim payment as well as actually paid project funds. Additionally, project completion settlement is usually lagging, and withdrawal of guarantee money is delayed and uncertain. To protect taxpayers against loan-based tax payment, we suggest that the day on which taxpayers make a project payment should be considered the day of VAT invoice issuing and tax liability occurring.

To accelerate technical progress and improve construction scheme, construction enterprises, especially large-scale construction enterprises, usually purchase and set up lots of special equipment, but equipment occupies a large proportion of total enterprise assets and equipment amortization takes long time, so it's suggested that an allowance system should be set up for input tax on construction enterprises' special equipment during the transitional period of tax reform to reduce corporate tax burdens.

Construction enterprises' income actually includes some cost paid for others, such as land demolition cost and crop compensation cost. A deductible voucher can be obtained for none of the costs to which the above income corresponds, so it's suggested that while designing a tax reform program, the designer should design a rational tax base and remove some of the above tax base containing payment on behalf of others.

Enhance Enterprises' Self-Management and Improve Management Level

The management over contract review and signing should be enhanced. In the process of contract signing, contract signers, value-added tax deduction and enterprise names ought to be normalized and made right. If enterprises still signs a contract in the name of its project department or branch, some fundamental problems will arise in deduction process and cause a failure in deduction, so the project department of all branches must sign a contract in the name of the parent company. Meanwhile, the head office should strengthen management to avoid unlawful contract signing. Relevant causes should also be made clear in the process of contract enforcement, and express terms ought to be set on VAT invoice for subcontractors and suppliers.

Make Careful Preparations for Bidding, and make a Tender Budget Prudently. The marketing department should sign a construction contract with discretion, and give adequate consideration to the impact of value-added tax, for there are great differences in actual tax burden between different types of projects. For instance, there is hardly any deductible input tax on earth-rock engineering. For example, if a project is located in a remote mountain, tax burden will certainly increase, so an enough profit space will be left when a tender budget is prepared.

Review Construction Contract Seriously. Review construction contract seriously to ensure a rational profit space for enterprises from the source. For project construction contract signing, apart from the customary clauses, it should be marked: the way Party A provides materials and devices, makes payments, and issues invoices; the way the subcontract designated by Party A is settled, and invoices and taxes are provided, etc. Here, we should also pay special attention to that all enterprises but equipment installation enterprises should refuse Party A's requirements for material and equipment supply. Party A can designate a manufacturer, variety and model, but purchase contract should be signed by the construction side with supplier, to avoid input tax missing. In project subcontract management, project ought to be subcontracted to qualified enterprises. Meanwhile, it needs to be explicitly requested in subcontract that subcontractors should provide a VAT special invoice for subcontract settlement. To completely eradicate unqualified subcontracting and the subcontracting (affiliating) that has to be adopted for specific cause, we must leave enough corporate earning and taxing and then set a subcontract settlement price, to relieve the tax burden caused by "replacement of business tax with VAT".

Try to choose General Taxpayers as Suppliers. A purchasing company can be founded so as to choose good taxpayers as suppliers, to reduce the probability of choosing small-scale taxpayers as taxpayers. Since business tariff and annex has nothing to do with enterprise cost management in the

current business tax system, enterprises may just link cost management with business income tax. But after the joint connection of cost management with turnover tax, enterprises must make tax planning. For instance, price was blindly emphasized in the past no matter whether the suppliers were small-scale taxpayers and general taxpayers, while at present, comprehensive consideration should be given to both cost reduction and tax burden decreasing to obtain an equilibrium point. Contract cost department, finance department and purchase & supply department should make a meticulous measurement before deciding to select small-scale taxpayers or general taxpayers.

Strengthen Management over Subsidiaries and Project Engineering Department. The phenomena that may appear after the “change from business tax to value-added tax”: Due to different management levels or structures (some of the subsidiaries own branches and some own subsidiaries), as well as different management ideas of leaders and their different attention to taxation, the various subsidiaries are different from each other in actual tax burden. The conglomerate should strengthen management over the subsidiaries and project engineering department to improve the project management level to minimize the cost paid for choice of general taxpayers as suppliers. It should also redesign the internal control system of employment, material purchasing, progress and capital of the project management department, and try to purchase various materials, machines and services from a supplier that can supply VAT invoices. Subcontracting (of course, building laws and regulations shall prevail) can be adopted, which can help get input tax deduction at a time, while for autonomous construction, a related input tax receipt needs to be acquired. The group company can release and rank the tax burden of the various subsidiaries regularly to supervise and urge and encourage the subsidiaries to strengthen tax planning to actively adapt to the “replacement of business tax with VAT”. In addition, after the pilot “change from business tax to value-added tax”, when operating some franchised projects, general taxpayers can select small-scale taxpayers in short time (three or five years). The enterprise should weigh the advantages and disadvantages and make a choice according to the specific circumstances.

Heighten the Consciousness of Value-added Tax Deduction and make Full Use of Financial Supporting Policies.

Before the “replacement of business tax with VAT” is about to be implemented in the construction industry, construction enterprises should set up a sound invoice management system to heighten their consciousness of value-added tax deduction. In terms of supplier selection, the ones large in scale and able to issue an official VAT invoice ought to be selected.

The VAT special invoice obtained should be kept in good condition, input invoice should be authenticated and deduction should be declared, so this work has a strong timeliness, to which tax officials should pay high attention; tax officials should be taught to distinguish a true invoice from false ones consciously so as not to increase tax burdens.

In a word, construction enterprises should make all preparations actively, take the opportunity to enhance enterprise internal management, and look forward to having “replacement of business tax with VAT” implemented in the construction industry for tax abatement. It is expected eagerly that this tax reform should clear away the mess in the construction industry and standardize the construction market automatically. In addition, according to other service industries’ experience in “replacement of business tax with VAT”, before policy implementation, the government generally will give lectures related to the training of policies and regulations and practical operation, in which enterprises ought to take an active part. On the one hand, they will be able to learn about the

practical operation of “replacement of business tax with VAT”; on the other hand, they will be able to obtain the information of some special policies, such as policy on return of taxation burden, etc.

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