ISSN: 2688-9323

Tax Planning and Performance Evaluation of Enterprise Merger and Reorganization

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Abstract

Under the impact of novel coronavirus pneumonia epidemic, the global economy is facing downward pressure, and China's economic and social development is also under great pressure and difficulties. The inherent contradictions in the economy are superimposed, and new difficulties and challenges come one after another. In this case, in order to effectively protect the value and even increase the value of the enterprise's resources, and to promote the enterprise to win steadily and become bigger and stronger, merger and reorganization has become the best choice. In the process of merger and reorganization, enterprises lay a solid foundation for enterprises from big to strong by allocating and optimizing the resources of existing assets, and by carrying out powerful alliances with other enterprises such as asset replacement, merger and acquisition. After studying the main performance of enterprise merger and reorganization, this paper analyzes the tax planning it faces, and explores the financial performance brought by enterprise merger and reorganization and tax planning.

Keywords

Tax Planning; Merger and Reorganization; Financial Performance.

1. Introduction

Under the impact of novel coronavirus pneumonia epidemic in 2020, the global economy is facing downward pressure, which also brings great pressure and difficulties to China's economic and social development. The original economic contradictions are superimposed, and new difficulties and challenges come one after another. How to solve this dilemma has become a key problem that business operators and organizers need to face and solve. Merger and reorganization of enterprises is a very important economic phenomenon in the market economy. Through strategic layout, enterprises grasp the strength of reorganization, adjust the structure of enterprises, and through merger and reorganization, effectively ensure the preservation or even appreciation of the resources of enterprises, promote enterprises to become better, bigger and stronger, and realize rapid profits of enterprises. By standardizing the property rights transaction of enterprises, the government creates a good market environment and foundation, thus expanding the value effect of enterprises. In the process of merger and reorganization, enterprises lay a solid foundation for enterprises from big to strong by allocating and optimizing the resources of existing assets, and by carrying out powerful alliances with other enterprises such as asset replacement, merger and acquisition.

ISSN: 2688-9323

2. The Meaning and Market Trends of Enterprise Merger and Reorganization

2.1. The Meaning of Merger and Reorganization of Enterprises

The merger and reorganization of enterprises is to optimize and integrate the resources of people, property and other aspects of enterprises by means of business reorganization, financial reorganization and organizational reorganization. As a social organization, the purpose of financial management of an enterprise is to maximize the interests of shareholders. In order to increase the value of capital and improve the profits of enterprises, enterprises supplement and adjust capital through mergers and acquisitions, so as to meet the requirements of the best economic scale and maximize the economies of scale.

2.2. The Market Trends of Merger and Reorganization of Enterprises

Nowadays, due to the influence of novel coronavirus pneumonia epidemic, facing the complicated situation of global economic development and the external environment of economic downturn, enterprises are gradually focusing on internal management in order to develop and upgrade management and technology. Up to now, the system is inactive, fragmented, the competitiveness of products is limited, and the ability of enterprises to resist risks is limited, which still exists in some enterprises in China.

As the overall economic development at home and abroad slows down, fewer and fewer enterprises can withstand the pressure and maintain sustained growth. Therefore, powerful and basic head enterprises can rapidly enhance their own competitive advantages and living space, expand their market share, and maximize their own integration capacity building by acquiring other enterprises in the process of merger and reorganization. Merger and reorganization of enterprises can enable enterprises to combine various resources, deepen the reform of the original production technology, update the enterprise management system, strengthen the economic strength of enterprises, fundamentally adjust the industrial structure in the industry, and create new economic growth points.

3. The Development Course and Main Manifestations of Enterprise Merger and Reorganization

3.1. The Development Process of Enterprise Merger and Reorganization

3.1.1. Initial Stage

China's real merger and reorganization with modern enterprises as the main organizational form first appeared in 1984, that is, Baoding Machinery Factory merged Baoding Knitting Machinery Factory, which became the first case of enterprise merger and reorganization after China's reform and opening. After that, the wave of mergers and acquisitions followed, and mergers and acquisitions appeared in various regions. In this initial stage, the merger and reorganization of enterprises has been strongly supported by a series of policies issued by our government. Among them, the 13th National Congress of the Communist Party of China proposed for the first time to allow the property rights of small state-owned enterprises to be transferred with compensation under certain conditions. This measure greatly encouraged enterprises to carry out mergers and acquisitions, and indirectly led to the arrival of the first wave of mergers and acquisitions in China, showing a blowout trend.

Generally speaking, the merger and reorganization of Chinese enterprises is in the exploratory stage at this stage, which is strongly guided and intervened by the government.

ISSN: 2688-9323

3.1.2. Steady Development Phase

After Comrade Deng Xiaoping's southern talk in 1992, China's market economy entered an active period, and state-owned enterprises and private enterprises ushered in spring again. With the standardization of the market, the government has established the reform direction of the market economy. The central government has clearly indicated that property rights should flow and reorganize. Property rights reform has become an important part of enterprise restructuring at this stage. By 1994, there were more than 20 property rights trading markets all over the country, through which enterprises can trade all or part of property rights and interests with physical form as the basic feature.

China's merger and reorganization market is also more diversified. Cross-border mergers and acquisitions and the addition of foreign-funded enterprises have made the merger and reorganization in this stage develop more rapidly, and the scale of merger and reorganization of Chinese enterprises has once again entered a period of rapid growth.

3.1.3. Development and Expansion Phase

China joined WTO in 2002, taking advantage of the east wind of global integration and starting a new round of economic growth. In order to promote Chinese enterprises to expand their scale, actively enter WTO and become more competitive in the international market, China has successively issued various policies to support enterprises to carry out mergers and acquisitions at this stage. Under this series of favorable stimuli, Chinese enterprises have shown a strong momentum of development after entering the 21st century. This upsurge did not turn into a trough until the outbreak of the global financial crisis in 2008. After the impact of the financial tsunami gradually weakened, China's merger and reorganization market began to recover and gradually entered a new stage of development.

3.2. Main Manifestations of Merger and Reorganization of Enterprises

3.2.1. Reduce Barriers to Entry for Enterprises

Barriers to entry mean that when an enterprise enters a new industry or region, because barriers to entry will protect the original enterprises in the industry or region, barriers will be added to foreign enterprises to increase their entry costs and risks, thus protecting the original enterprises. However, in the form of merger and reorganization, when an enterprise merges across regions or industries, relying on the merged enterprise as a "stepping stone", it can enter the region or industry with low risk and low cost to effectively realize the expansion of the enterprise.

3.2.2. "Exchange Blood" for Enterprise Assets

Whether the merging party discovers the undervalued enterprises and acquires them, or the leading enterprises in the industry adjust their main businesses through merger and reorganization, the structure of the enterprises will be changed to a great extent and the asset structure of the enterprises will be greatly changed. After the reorganization of the enterprise, the original structure of assets and liabilities will be recombined and set up. To a certain extent, the reorganization can promote the improvement of the enterprise governance structure and make up for its structural defects.

3.2.3. Enterprises Form Economies of Scale

The flow and reorganization of property rights in the process of merger and reorganization of enterprises have injected fresh blood into the development of enterprises. On the one hand, it has revitalized the original assets of the enterprise by organically integrating the newly introduced assets with the original assets; On the other hand, it can replace high-quality resources with advantageous enterprises or industries, expand rapidly and form economies of scale.

ISSN: 2688-9323

4. The Necessity and Main Methods of Tax Planning after Enterprise Merger and Reorganization

Tax planning refers to a kind of business planning behavior in which taxpayers carry out tax planning in the process of daily operation, investment and financing, financial management, etc. in order to reduce or reasonably avoid the tax burden they need to bear, through reasonable use of special cases of tax law, so as to achieve the purpose of tax reduction.

In the merger and reorganization of enterprises, due to the transfer of assets and the payment of cash, there are many taxes involved and the tax system is relatively complex. Therefore, we should carry out reasonable tax planning to minimize the tax burden of enterprises.

4.1. The Necessity of Tax Planning

The ultimate goal of tax planning is similar to that of financial management, which is to maximize the profits of enterprises. The purpose of tax planning is to reduce the tax burden of enterprises and achieve the maximum tax-saving income. Since tax payment runs through the whole process of enterprise merger and reorganization, we must carefully formulate planning schemes suitable for enterprise development before, during and after merger and reorganization.

4.1.1. Tax-related Complexity of Enterprise Merger and Reorganization

The assets reorganization and debt reorganization involved in the process of merger and reorganization of enterprises are complicated to deal with. Merger and reorganization is a complicated and technical market behavior. Therefore, when enterprises deal with tax matters related to mergers and acquisitions, the different taxes involved, the differences in tax treatment, the changes in tax policies and other issues will affect the decision-making of enterprises and the implementation of the optimal merger plan. As merger and reorganization is a major decision of an enterprise, an enterprise should evaluate the possible risks before making such major decisions, among which the possible risks in taxation should not be underestimated.

4.1.2. Profitability of Tax Planning for Enterprise Merger and Reorganization

If an enterprise chooses the best tax planning scheme after good tax planning, it can not only skillfully use preferential tax policies in the process of merger and reorganization to exempt it from various turnover taxes and reduce the cost of reorganization. Tax reduction and exemption can also be carried out in the restructured production and business activities to promote the restructuring benefits of enterprises and obtain greater benefits.

4.2. Main Methods of Tax Planning for Merger and Reorganization

4.2.1. Special Tax Treatment in Enterprise Merger and Reorganization

In 2009, the Ministry of Finance and the State Administration of Taxation issued document No.59, which shows that enterprises applicable to special tax treatment enjoy deferred tax treatment when carrying out merger and reorganization activities. For example, as the document clearly stipulates, in a special reorganization, the merged party does not need to confirm any income or loss when acquiring the equity payment part of the merged party. Therefore, in order to get the deferred tax treatment that special reorganization can enjoy, enterprises should adopt equity payment method and increase the amount of deferred income tax in the process of asset reorganization, so as to achieve the purpose of tax planning for tax reduction and negative reduction.

4.2.2. Merger and Reorganization Provide Tax Planning Space by Changing Income Distribution

In accordance with the relevant provisions of the State Administration of Taxation, if the merged enterprise does not have the qualification of an independent taxpayer after the merger, its

ISSN: 2688-9323

losses are allowed to be carried forward to the following years for further compensation. Therefore, enterprises can make a fuss about losses as the starting point of tax planning, and formulate tax planning strategies to maximize profits.

4.2.3. Reasonable use of Preferential Tax Policies

When enterprises carry out tax planning, they should carry out tax planning on the premise of abiding by tax laws and other relevant laws, and make use of the differences in tax rates of different taxes to find space for tax planning.

5. Research on Tax Planning and Financial Performance of Enterprise Merger and Reorganization

Table 1. DuPont Analysis Indicators

Indicator Level	Indicator Name	Indicator Formula
Level I indicator	Return on equity	Return on equity=Net profit/Equity capital
Level Ⅱ indicator	Return on total Assets	Return on total Assets=Net profit/Average total assets
	Equity multiplier	Equity multiplier=Average total assets/Total average shareholder equity
Level Ⅲ indicator	Net operating interest rate	Net operating interest rate=Net profit/Total operating income
	Total assets turnover rate	Total assets turnover rate=Total operating income /Average total assets

In the financial performance analysis of merger and reorganization enterprises, we should combine the data of balance sheet, income statement and cash flow statement, and combine the assessment of financial indicators to analyze the financial benefits under various reorganization methods.

In the financial effect of enterprise merger and reorganization, all kinds of reorganization usually show changes in some aspects of assets and liabilities. First of all, the enterprise can improve its own profitability, increase profits and the possibility of continuous near-operation by adjusting the way of asset existence and the reorganization of assets in the form space; Secondly, the debt restructuring of enterprises adjusts the environment of debt repayment pressure and adjusts the interest relationship by paying attention to the contents of corporate debt repayment, debt term and interest expense; Finally, through capital restructuring, the enterprise adjusts the ownership structure within the enterprise, adjusts the ownership structure of the original shareholders or introduces new strategic investors.

The financial performance of enterprise merger and reorganization is the focus of our research. As shown in Table 1, DuPont analysis method can comprehensively and systematically analyze the operating ability, profitability and debt repayment ability of enterprises after merger and reorganization by studying different financial indicators of enterprises and their internal relations. Optimizing the business structure of equity and assets is the focus of enterprise merger and reorganization research. The asset side emphasizes the long-term sustainable profitability of enterprises, while creditors, shareholders and other stakeholders tend to demand compensation for assets.

5.1. Tax Planning under the Influence of Different Financing Methods

Equity trading, as an important source of funds for enterprise merger and reorganization, can provide strong financial support for enterprise merger, so it is also an important part of the process of enterprise merger and reorganization. The tax burden of enterprises varies greatly under different financing methods. For example, under the equity financing of exogenous financing, the tax burden of enterprises may increase because dividends paid by enterprises are not allowed to be deducted before tax; However, in the case of internal financing of endogenous financing, the tax burden of enterprises may increase due to the secondary taxation. Therefore, we use debt financing to raise funds by borrowing money from banks or issuing corporate bonds, because the interest paid in this financing method is allowed to be deducted before tax, which can effectively reduce the tax burden on enterprises.

5.2. Tax Planning for the Selection of Target Enterprises in the Process of Merger

The state has different preferential policies such as tax relief for different industries. Enterprises planning to merge should grasp the industry trends supported by the state in real time, have quick response ability to market environment and policy changes, and grasp the basic trends of the industry. If these enterprises with preferential policies are selected in the process of merger and reorganization, they can enjoy relevant preferential tax policies, especially those with special tax treatment in income tax, and can obtain more tax relief.

5.3. Selection of Payment Methods for Merger and Reorganization

Cash payment, equity payment and mixed payment are common payment methods for merger and reorganization of Chinese enterprises at present.

Cash payment has the advantages of convenient procedures and quick delivery, and is the simplest and most convenient payment method in merger and reorganization. Although cash payment has high autonomy and flexibility, less transaction process, shorter time consumption, lower time cost and approval cost, it can solve the emergency problems of enterprises. However, after the merger and reorganization, the seller will obtain a large amount of assets in the form of cash, so it needs to pay a large amount of income tax, which can be deferred or even reduced if other payment methods are adopted.

In contrast, although the regulatory approval procedures for equity payment are complicated, the merging party can effectively release the cash flow of the normal operation of the enterprise because it acquires the target assets or the equity of the target company by issuing shares. On the other hand, it can solve the problem that the seller has to pay a large amount of income tax because of the big pen, and the tax burden of the target company can be deferred or even reduced. Mixed payment is a mixed way of cash payment and equity payment. Enterprises can flexibly choose reasonable payment methods according to their own conditions, and can also achieve the purpose of tax planning and reduce the tax burden of mergers and acquisitions of enterprises.

Acknowledgments

This article is one of the research achievements of Anhui University of Finance and Economics College Students' Scientific Research and Innovation Fund Project, Project Number: XSKY21106.

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