

Research on Tax Planning of Small and Medium-sized Enterprises

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Abstract

Small and Medium-sized enterprises are the backbone of national economic growth. Various tax policies and legal provisions are constantly innovated. Planning the tax planning mode of small and Medium-sized enterprises is of great significance to improve the economic benefits of small and Medium-sized enterprises, reduce the tax burden cost and ensure the healthy development of enterprises. Facing the increasingly severe competitive environment, especially for small and Medium-sized enterprises, the cost of enterprises has become an important constraint on competition. Under the constraints of established costs, expenses and income, we should actively carry out tax planning to increase enterprise profits. This paper mainly expounds the concept, principles, objectives and suggestions of tax planning.

Keywords

Small and Medium-sized Enterprises; Tax Planning; Planning Method.

1. Introduction

Small and Medium-sized enterprises adopt the highly unified management mode of ownership and management right, tend to family management, the management concept is backward, and even fail to integrate financial management into the effective management mechanism of enterprises, lack of modern financial management concept, uneven quality of employees, and lack of planning for the long-term development of enterprises. The internal control of small and Medium-sized enterprises is weak, the scale is small, and they are mainly labor-intensive. The investment of funds and the renewal of equipment are subject to certain constraints. Relying only on self accumulation is difficult to meet the technological innovation and the long-term development of enterprises, which further restricts the introduction of talents. Not only that, the brain drain of small and Medium-sized enterprises is serious. However, the market operation of small and Medium-sized enterprises is flexible, which can well grasp the market gap left by large enterprises and make timely adjustments according to the changes of the market. On this basis, if tax planning is done well to increase profits, it will contribute to the long-term development of enterprises.

2. Basic Theory of Tax Planning

Although there are many literature Monographs on tax planning at home and abroad, and there are not a few scholars studying tax planning, so far, there is no unified and authoritative definition of tax planning. By comparing the opinions of scholars at home and abroad, this paper adopts the viewpoint of generalized tax planning. On this basis, it expounds the relevant basic theories of tax planning.

2.1. The Meaning and Characteristics of Tax Planning

Tax planning can be divided into broad sense and narrow sense. In a narrow sense, tax planning only refers to legal tax saving planning, and it is not allowed to make use of the defects and loopholes of tax laws and regulations for tax planning. Tax planning in a broad sense not only

adopts legal tax saving planning, but also includes tax planning through non illegal tax avoidance means.

This paper adopts the view of broad tax planning, and holds that tax planning refers to a series of activities to maximize the value of enterprises by making reasonable arrangements in advance for tax related matters such as the business activities or investment behavior of tax payers, and by paying less tax or delaying tax payment without violating national tax laws and regulations. As can be seen from the definition, the characteristics of tax planning are as follows: No illegality. Non illegality is the premise for the enterprise to carry out tax planning. The behavior of the enterprise shall not conflict with the current legal provisions. Taking advantage of the gaps and loopholes in the law, when there are a variety of schemes to choose from, it is the best choice for the tax behavior through the research and comparison of the schemes.

Planning. Enterprises only have the tax obligation after the transaction, which provides the possibility for taxpayers to make prior arrangements for taxable behavior. Before the occurrence of taxable behavior, enterprises can plan and arrange in advance according to the actual situation of enterprises by measuring the effect of tax planning, so as to achieve the ultimate goal of enterprises.

Purpose. As a part of enterprise financial management activities, tax planning serves enterprise financial activities in order to maximize enterprise value. In the tax planning scheme, the minimization of tax expenditure does not necessarily mean the maximization of enterprise value. It is necessary to prevent the reduction of other income or overall expenses caused by the implementation of the scheme.

2.2. Methods of Tax Planning

Enterprises can carry out tax planning from different angles. For example, they can carry out tax planning from the perspective of enterprise life cycle or from the perspective of tax types. However, no matter what point of view, enterprises mainly carry out tax planning through the following three methods.

Narrow the tax base. The tax base is the basis for calculating the amount of tax payable. The amount of tax payable remains directly proportional to the tax base. On the premise that the tax rate remains unchanged, reduce the tax base and reduce the amount of tax payable. In the actual operation of the enterprise, some expenses are limited to deduction, and the enterprise can maximize the allowable deduction, so as to reduce the tax basis of the enterprise. For example, the employee benefits paid by the enterprise can be deducted within the limit of 14% of the total wages and salaries. For small and Medium-sized enterprises lacking working capital, the less tax paid is equivalent to obtaining an interest free loan and increasing the cash inflow.

Lower tax rates. Due to the differences in economic development, enterprises in different regions, industries and organizational forms are treated with different tax rates. When small and Medium-sized enterprises are established, they should consider the tax preferential policies provided by the state and choose the regions, industries or organizational forms that are most conducive to the development of enterprises.

Tax deferment. Delaying tax payment refers to making taxpayers delay tax payment, obtain the time value of funds and correspondingly increase the cash inflow of enterprises on the premise of not violating the law. Small and Medium-sized enterprises have tight capital turnover and difficult financing. Taxpayers can delay tax payment, make full use of the time value of funds, reduce the difficulty of enterprise capital turnover, increase the competitiveness of enterprises, and be conducive to the healthy development of enterprises. In specific practice, different accounting policies have different effects on profits. Small and Medium-sized enterprises can adjust and apportion income and costs and delay tax payment as far as possible. For example, there are first in first out method, one-time weighted average method, moving weighted

average method, etc. for the issued inventory cost of an enterprise, an enterprise can choose a pricing method that is beneficial to the enterprise according to its needs.

In tax planning, enterprises should pay attention to the connection between the above methods and apply them comprehensively and flexibly. The ultimate goal of tax planning is to maximize the enterprise value. We must not increase the overall tax burden or reduce the income in order to adopt one of these methods.

3. Tax Planning of Small and Medium-sized Enterprises

Because small and Medium-sized enterprises are limited by their own characteristics, financing is difficult and capital turnover is tight. How to reduce the tax burden cost of enterprises has become the focus of enterprises. According to the characteristics of small and Medium-sized enterprises, combined with cases, tax planning is carried out for small and Medium-sized enterprises from the aspects of creation and financing.

3.1. Tax Planning for the Establishment of Small and Medium-sized Enterprises

The establishment of small and Medium-sized enterprises involves less business, mainly including the choice of organizational form and the source of funds. The source of funds is introduced separately in the second part. This part mainly introduces how to use different organizational forms and relevant preferential tax policies for tax planning.

3.1.1. Sub-section Headings

The comparative choice between legal person enterprises and natural person enterprises. The operating profits of legal person enterprises are subject to enterprise income tax in the enterprise link, and the after tax profits are distributed to investors as dividends. Investors need to pay individual income tax, which shall be withheld and paid by the company. The profits realized by natural person enterprises do not need to pay enterprise income tax, but only the individual income tax is levied at the tax rate of 5% ~ 35%. Generally speaking, because there is no double taxation in natural person enterprises, the tax burden is lower than that of legal person enterprises. If considering from the perspective of enterprise tax burden, new enterprises should choose natural person enterprises as the organizational form. For small and Medium-sized enterprises with large scale and high management level, due to many capital needs, difficult financing and relatively difficult management, legal person enterprises should be selected. In choosing the organizational form of enterprises, in addition to considering the tax burden, we should also consider whether there are preferential policies and choose the organizational form conducive to enterprises from our own actual situation and objectives.

Comparison and selection of subsidiaries and branches. After the establishment of the enterprise, in order to expand the production scale or explore the market, the enterprise needs to add branches. According to the needs of the company's development, you can choose to set up subsidiaries or branches. Subsidiaries have the status of enterprise legal person, calculate profits and losses separately and pay taxes by themselves. Branches do not have the status of enterprise legal person and calculate and pay enterprise income tax together with the head office. The difference of tax treatment between subsidiaries and branches provides selectivity for small and Medium-sized enterprises to choose branches.

3.1.2. Using Preferential Tax Policies for Tax Planning

Choice of place of registration. The state gives preference to the tax policies of different regions and implements regional tax preferential policies. Enterprises can choose to register in regions with relatively low tax rates. Although the preferential policies are not specially formulated for small and Medium-sized enterprises, many preferential policies are applicable to small and Medium-sized enterprises. Due to the limitations of registered capital and business scale, small

and Medium-sized enterprises should enjoy the preferential policies provided by the state as much as possible in combination with the actual situation and development trend.

Choice of investment industry. Give corresponding preferential tax policies to industries that are mainly supported and encouraged to develop. When choosing investment industries, small and Medium-sized enterprises should make full use of preferential policies and levy enterprise income tax at a reduced rate of 15% for high-tech enterprises supported by the state. Enterprises should combine their own actual situation, strive to make the operation of enterprises comply with the national macroeconomic policies and enjoy relevant preferential policies.

Company a achieved an accounting profit of 1 million yuan in the year of establishment, and all after tax profits were equally distributed to five shareholders. As the company is a high-tech enterprise supported by the state and registered in Shenzhen Special Economic Zone, the enterprise adopts the enterprise income tax rate of 15%, and implements the preferential policy of two exemptions and three reductions of half from the year in which the first operating income is obtained. The corporate income tax to be paid by the company is 0 million yuan, the income of each shareholder is 200000 yuan ($100 \div 5$), and the individual income tax paid by each shareholder is 40000 yuan ($20\% \times 0.2$), a total of 200000 yuan of tax has been paid. Assuming the above conditions remain unchanged, if it is a five person partnership, the income of each partner is 200000 yuan and the individual income tax paid by each partner is 63250 yuan ($200000 \text{ yuan} \times 0.35 - 0.675$), and the tax paid in the form of company is 1162500 yuan (6235 yuan) less than that in the form of partnership $\times 5 - 20$, it is more advantageous to adopt the form of company system.

Assuming that the company did not apply for a high-tech enterprise when it was established, and the place of registration is not in the special economic zone, if it adopts the form of company system, it needs to pay enterprise income tax of 250000 yuan ($1 \text{ million yuan} \times 0.25$), the income of each shareholder is 150000 yuan ($(100 - 25) \div 5$), and the individual income tax paid by each shareholder is 30000 yuan ($150000 \text{ yuan} \times 0.2$), paying a total tax of 400000 yuan ($25 + 3 \times 5$). Assuming the above conditions remain unchanged, if it is a human partnership, the income of each partner is 200000 yuan and the individual income tax paid by each partner is 623500 yuan ($200000 \text{ yuan} \times 0.35 - 0.675$), then the per capita income of partners is 136750 yuan, and the tax paid in the form of partnership organization is 837500 yuan ($40 - 6.235 \text{ yuan}$) less than that in the form of company system $\times 5$) At this time, it is more advantageous to adopt the form of partnership organization.

When enterprises choose different organizational forms, in addition to directly comparing the tax burden, they also need to comprehensively consider market changes and the actual situation of enterprises, whether they can enjoy preferential policies and choose the organizational form that is most conducive to enterprises.

3.2. Tax Planning for Financing of Small and Medium-sized Enterprises

Small and Medium-sized enterprises are limited by the lack of funds, and financing has become the first consideration of small and Medium-sized enterprises. In addition to debt financing and equity financing, enterprises can also raise funds by using commercial credit and leasing. Different financing methods have different effects on the tax burden of enterprises, which provides space for tax planning of small and Medium-sized enterprises.

3.2.1. Establish Reward and Punishment Measures

When small and Medium-sized enterprises borrow money from financial institutions for financing, all the loan interest paid is included in the financial expenses, which can be deducted before tax. The dividends paid by equity financing can only be redistributed after paying income tax, which has no tax deduction effect. Small and Medium-sized enterprises are difficult to enter the main board market, and equity financing channels are subject to many restrictions. When

financing, small and Medium-sized enterprises cannot only use debt financing or equity financing. The two should be used in combination. A reasonable debt ratio can not only restrict the existing risks, but also affect the tax burden of enterprises to a great extent. Small and Medium-sized enterprises should comprehensively consider various factors and choose the most favorable financing mode for small and Medium-sized enterprises.

3.2.2. Tax Planning of Leasing for Small and Medium-sized Enterprises

Small and Medium-sized enterprises are short of funds and have difficulties in capital turnover in production and operation. They are often unable to purchase fixed assets needed by enterprises such as machinery and equipment. It is a good choice to choose leased assets. As a special way of financing, leasing has different effects on enterprise tax. For small and Medium-sized enterprises lacking funds, leasing can enable the lessee to avoid a large amount of capital payment and reduce the pressure of capital turnover. Leasing business is increasingly widely used in the market economy.

As the assets of operating lease belong to the lessor, the enterprise collects the rent on schedule. The lessor can deduct the depreciation fees and maintenance fees related to the leased assets and the business tax related to income before tax. The lessee can reduce the pressure of capital turnover, pay the rent on schedule and obtain the assets needed by the enterprise. The rent can be deducted before tax, Do not bear the risk of price changes of assets.

The lessee does not need a large amount of funds to purchase the assets it needs. The handling charges paid and the interest paid after the equipment is installed and delivered for use can be deducted before tax. The leased fixed assets are regarded as owned by the enterprise, and the depreciation withdrawn can be deducted before tax to reduce the taxable income of the enterprise.

When small and Medium-sized enterprises use financing methods for tax planning, they should pay attention to the possible risks brought by enterprise financing, and consider comprehensively according to their own specific situation and risk tolerance. Generally speaking, if the rate of return on investment before interest and tax is higher than the rate of interest on liabilities, the tax saving effect is more obvious with the increase of the proportion of liabilities. However, with the increase of the proportion of liabilities, the pressure of enterprise debt repayment increases, and the financial risk and financing risk also increase. The rate of return of investors and creditors for providing funds increases, so as to offset some tax saving benefits. If the proportion of liabilities is too large, it will lead to the occurrence of enterprise financial crisis.

4. Conclusion

Small and Medium-sized enterprises have played an important role in promoting employment and enhancing the vitality of enterprises. Due to the late start of tax planning research, the limitations of their own conditions and the adjustment and change of relevant tax policies, tax planning has not been popularized in small and Medium-sized enterprises, but it does not mean that tax planning is not feasible and necessary in small and Medium-sized enterprises. Combined with the characteristics and cases of small and Medium-sized enterprises, this paper analyzes the feasibility and necessity of tax planning for small and Medium-sized enterprises from the aspects of creation and financing.

It focuses on how to effectively apply tax planning in all links of small and Medium-sized enterprises. Combined with the data of relevant cases, it analyzes and compares the actual effects of tax planning, deepens the understanding of enterprises on the theory and practical application of tax planning, and confirms the necessity and feasibility of tax planning for small and Medium-sized enterprises. Individual taxes adopt the method of indifference balance point, The calculation obtains the value of the critical point, which is helpful for small and Medium-

sized enterprises to make decisions quickly. In view of the problems existing in the tax planning of small and Medium-sized enterprises, this paper puts forward the corresponding policies.

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