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Urban and Rural Residents to Improve the Development of Old-age Insurance

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Abstract

Old-age insurance for urban and rural residents to the selection of appropriate tax solutions for enterprises without violating national laws and regulations, so as to achieve the goal of maximizing after-tax profits and enterprise value. This paper analyzes the necessity and feasibility of tax planning for K-Technology Co., Ltd. by analyzing its financial situation, production organization and tax burden, and proposes a tax planning plan for the enterprise with value-added tax (VAT) and enterprise income tax (EIT) as the main points. At the same time, effective solutions are proposed to the obstacles that may be encountered in the process of implementation.

Keywords

Old-age Insurance for Urban and Rural Residents; Enterprise Tax Planning Scheme; Maximizing After-tax Profits; Maximizing Enterprise Value.

1. The Original Intention of Endowment Insurance for Urban and Rural Residents

In 1998, the "State Council on further deepening the reform of the urban housing system to speed up the construction of housing notice" opened the prelude to the reform of the housing system, the rapid development of the real estate industry. 2016 May 1, the implementation of the "camp change" policy, and the end of the year, the central economic work conference for the first time clearly put forward "The house is for living, not for speculation", to the real estate industry has brought a great impact, the second housing reform, the establishment of long-term mechanism of the real estate market are also on the agenda. Over the past few years, with the direct entry of collective land into the market, strict land transfer conditions, land transfer premiums collected by the tax department, centralized land supply, improve the rules of land auction and listing, actively promote the legislation on real estate tax, curb speculation and over-investment, plug loopholes in real estate control mechanisms, and strengthen the construction of guaranteed rental housing, etc., real estate has begun to return to the nature of the housing, and the long-term mechanism of the real estate market has been the first glimpse of the beginning. After the tenth meeting of the Central Financial and Economic Commission put forward the goal of "promoting common prosperity in high-quality development", the pace of structural adjustment of the real estate industry will be further accelerated, and gradually move towards high-quality development.

Supported by the company's sound organizational structure, the company not only has a wide range of domestic markets, but also continues to expand the foreign market, in the first quarter of 2021, the company for the first time, surpassing the number one competitor Cisco, with the world's largest share of the core router market. In the first quarter of 2021, the company surpassed its number one competitor Cisco for the first time in the world's core router market. In the case of going to the foreign market and having a large market share, the import and

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export value-added tax (VAT) will have a significant impact on the tax burden of the enterprise, and therefore also put forward the necessity of tax planning in this regard.

2. The Effect of Endowment Insurance for Urban and Rural Residents

Based on the analysis of financial indicators above, it is concluded that it is necessary to carry out tax planning for financing methods. The following is an example of tax planning for financing.

If Company K plans to raise 5,000,000,000 Yuan for the research and development of a new technology, it designs the following five scenarios, assuming that no other factors are taken into account, and calculates the results as shown in the table below:

Table 1. Financing Options under Different Capital Structures

Liabilities	0	1000	2500	3000	4000
Equity capital	5000	4000	2500	2000	1000
Capital structure ratio	0:5	1:4	1:1	3:2	4:1
Debt Cost Ratio	0	6%	7%	9%	11%
Earnings before interest and taxes	500	500	500	500	500
Less: Interest expense	0	60	175	270	440
Earnings before tax	500	440	325	230	60
Income tax	75	66	48.75	34.5	9
Profit after tax	425	374	276.25	195.5	51
Return on investment before interest and tax	10%	10%	10%	10%	10%
Return on equity capital before tax	10%	11%	13%	11.5%	6%
Return on equity capital after tax	8.50%	9.35%	11.05%	9.775%	5.10%

3. Conclusion

In scheme A, K chooses all equity capital financing, and its debt amount, debt cost ratio and benefit fee.

1) Use are 0, at this time the profit before tax and profit after tax to reach the maximum, pre-tax, after-tax return on equity capital is not the maximum, therefore, the A program is not the optimal capital structure, should not be chosen.

2) In scheme B, the ratio of debt to equity capital is 1:4, and the interest expense of 60 million dollars can be deducted before tax, which plays the role of financial leverage of debt financing and makes its return on equity capital exceed that of scheme A, which has no debt financing.

3) C program, the ratio of debt to equity capital is 1:1, this time the capital structure ratio is more appropriate, pre-tax, after-tax return on equity capital is the largest, at the optimal point, giving full play to the role of financial leverage, which is the optimal capital structure of the enterprise.

4) D program, the ratio of debt and equity capital is 3:2, debt capital has exceeded the equity capital, the cost of debt is larger, more deductible interest expenses, but the less income tax does not mean that the enterprise obtains more final income, at this point, with the total size of

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the debt exceeds the threshold, the increase in the cost of risk exceeds the benefit of tax savings, causing more harm than good to the enterprise, pre-tax, after-tax return on equity capital are Lower than C program, not in line with the objectives of tax planning.

5) In E-scenario, the ratio of debt to equity capital is 4:1, at this time, the enterprise's tax saving effect is the largest, but the decline of owner's equity leads to the lowest level of pre-tax and after-tax return on equity capital, which leads to the loss of enterprise's economic interests.

Through the above five debt financing options, it is easy to see that the cost of debt has the role of a tax blocker, appropriately increasing the size of the debt is conducive to the pursuit of more economic benefits, with the increase in the total amount of debt, the increase in the cost of debt ratio, the interest cost is rising trend, so that the pre-tax, after-tax profits will tend to decline, the tax-saving utility is also enhanced.

However, the return on capital is not always positively correlated with the debt ratio, but rather there is a tipping point, and when the debt ratio exceeds the tipping point, the increase in the cost of risk accompanying the tax savings may result in a loss of ultimate benefits to the firm.

In addition to the financial indicators above, the enterprise's solvency indicators have to be optimized, so the enterprise can not unilaterally pursue the reduction of taxes, the enterprise's tax planning should be based on the premise of reasonable capital structure, need to take into account the overall situation and give full play to the financial leverage effect of liabilities and tax-saving effect at the same time, but also should take into account the relationship between the enterprise's financial risk and business risk, so the choice of the ratio of debt to equity capital is 1:1, C Therefore, it is most appropriate to choose the C option with a debt to equity capital ratio of 1:1.

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