



Study on the Tax Planning of Enterprise Income Tax

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Abstract

The enterprise income tax occupies very important status in the tax paying of enterprise, and it has large space of tax planning. Under the background that the new enterprise income tax law was issued, we discussed the problem how to use tax planning to reduce the tax burden of enterprise and realize the maximization of the total profit for the enterprise. In this article, we studied the tax financing in the stage of enterprise financing from the selection of financing mode and the confirmation of financing channel, and put forward that the enterprise should select the liability financing mode to the largest extent in the critical risk range of equity structure. We studied the tax planning in the stage of investment of enterprise from three aspects including correctly selecting the investment direction, confirming proper enterprise organization form and selecting tax saving investment subject. We studied the tax planning from two aspects such as income and charge deduction. We studied the tax planning in the distribution stage of enterprise management result from first utilizing taxable income to compensate the loss, the loss recovering sequence of domestic investment profit return and the profit distribution strategy in the low tax region. For above aspects, we all put forward our own new theoretical opinions.

Keywords: Enterprise income tax, Tax planning, Tax preference

Comparing with the old enterprise income law, the new enterprise income law changed in many aspects such as the taxpayer, the pre-tax deduction, and the tax preference, which put forward new task for the tax planning of the enterprise income tax. Under the background of new enterprise income tax, we will discuss the tax planning in the main stages such as the enterprise financing, investment, management and distribution.

1. Tax planning in the stage of enterprise financing

The tax planning of the income tax in the stage of enterprise financing mainly includes the contents about the financing mode and the financing channel.

1.1 Tax planning of financing mode

The financing modes of enterprise mainly include the equity financing and liability financing, and two different financing modes will produce different tax results. Generally speaking, under the fixed tax rate level, the liability financing can produce the interest rigid cost which can be reported before tax. When the account profit is adjusted as the taxable income, the tax law allows that the interest expenditure induced by the liability can be deducted before tax in the same interest rate regulated by the Bank in the same period, which equals that the state finance assumes a quarter of interest cost from the enterprise. The equity financing is the flexible cost of bonus stock which can be reported after tax. The mode that the enterprise provides bonus stock and dividend to the investors is only one item of the distraction of post-tax profit (net profit), and it must be distributed after tax. The tax saving difference between two financing modes is very obvious. In the equity structure of enterprise, the proportion of the liability equity is higher, and the saving effect of the tax cost is more significant. So under the premise that the rate of or return on investment is higher than the liability cost rate, enhancing the proportion of liability financing will bring extra economic benefits for the owner of the enterprise, and finally increase the value of the enterprise. But we should also pay attention to that will increase the financial risk of the enterprise, and excessive liability will even induce the abnormality of the enterprise equity structure,

and the liability crisis will make the financial status of the enterprise fall into collapse. Therefore, before the enterprise makes the tax planning of financing mode, it must ensure that the equity structure is in the critical risk range.

1.2 Tax planning of enterprise financing channel

The financing channels of enterprise mainly include bank loan, self-accumulation of enterprise, inter-enterprise lending, interior collection of enterprise, bond or stock issuance and commercial credit. Under usual situation, the sequence of the tax burden from heavy to light is self-accumulation of enterprise, bank loan, inter-enterprise lending and interior collection of enterprise. The principle of tax planning of financing channel is that under the premise that the equity structure is to select the channel with higher profit and lower harm in the critical risk range, through comparing the advantages and disadvantages of various financing channels.

2. Tax planning in the investment stage of enterprise

For the tax planning in the investment stage of enterprise, we mainly consider three aspects, i.e. the selection of investment direction, the selection of enterprise organization form and the selection of investment mode.

2.1 Selecting correct investment direction

The new enterprise income tax established the new tax preference which gave priority to the industrial preference, assisted by the regional preference, giving attention to the social advancement. Investors should select the investment industry to reduce the tax burden according to the regulations about the national industrial policies and tax preference, and response the industrial policy guidance of the government. First, because the industrial select possesses strategic meanings for the development trend of the enterprise, so when the investors make the decision of industrial investment, they should scientifically demonstrate the investment and carefully make the decision, and they should consider not only their own industrial advantages, but also national industrial support policies, industrial tax preference policies, and make the rare resources of the enterprise to the green sunrise industries such as the agriculture, scientific technology, environment protection and energy saving. Second, the enterprise income tax regulated regional preference for Chinese western regions, minority regions and special economic zones, and the enterprise should study out multiple selectable investment programs in possible investment regions, and it should not only compare the cost incomes of various regional investment programs, but compare the tax levels of various programs, and make the comprehensive evaluation for the comprehensive benefits of various regional investment programs, which can not only reduce the tax burden, but find the regional investment program with maximum economic benefit.

2.2 Selecting proper enterprise organization form

The tax planning of enterprise organization form should mainly consider four parts including establishment, expansion, division and merger. First, we will study the tax planning when the enterprise is established and select the organization form. According to the organization form, the enterprise types include individual proprietorship enterprise, partnership enterprise and limited corporation which can be divided into limited liability company and joint stock limited partnership, and because the tax system regulates different tax burden levels for the enterprises with different organization forms, so the establishment costs and advantages of different organization forms are different, and the tax is one of factors we should consider when we select the organization form of the enterprise. Especially when the organization form of the enterprise has large influence to the production and management, the tax will be the important factor which we should consider, and investors can select the organization form of the enterprise to reduce the tax burden for the enterprise. Second, we will research the tax planning when the enterprise is expanded and needs to select the organization form. Enterprise always actualizes the scale expansion by increasing branches, but the tax policies for the branches with different forms in the tax law are obviously different, so enterprise should select the organization form of the branch. For the filiale and the subsidiary company, they respectively have their advantages and disadvantages for the tax, so the loss of the branch can counteract the gain of the parent company and reduce the total taxable income of the company. The subsidiary company and the parent company are regarded as two entities in the law, but the subsidiary company can obtain various tax preference policies regulated by the laws or local government. So the enterprise should comprehensively consider the profit ability of the branch when it selects the form of the branch, and it should adopt the form of filiale when the branch is in the loss period, and adopt the form of subsidiary company when the branch is in the profit period. Third, we will study the tax planning in the division and merger of the enterprise. According to the regulations of the enterprise income law, enterprises should pay the income tax by 25%, but it also regulates that the small-sized profit-making enterprise can pay the income tax by 20%, so the middle and small-sized enterprise can adopt the division measure to separate the branch from the enterprise to reduce the taxable income and the tax burden. The enterprise income tax regulates that the profitable enterprise annexes unprofitable enterprise, it can use the accumulated loss of the unprofitable enterprise to counteract the profit of the profitable enterprise and reduce the taxable income and the tax burden. Therefore, in the merger of enterprises, the profitable enterprise can reduce the enterprise income tax by annexing unprofitable enterprises.

2.3 Selecting the investment subject of tax saving

According to different forms of investment subject, the investment of enterprise can be divided into monetary investment, tangible investment and immaterial investment. The monetary investment doesn't increase the tax burden of investors, but it will influence the cash flux and payment ability of the enterprise. Different tax regulations aim at different tangible investment types, for example, for the estate investment, investors need not pay relative sales tax (if the investor belongs to the real estate enterprise, the land value increment tax needs not be paid temporarily), and the depreciation of the estate can be deducted before tax to reduce the tax base of the enterprise income tax. For the stock-in-trade investment, the tax law will regard it as the sales goods and increase the tax bases of the value increment tax and the enterprise income tax, and the enterprise need pay the increment tax and the enterprise income tax. The immaterial investment can deduct the withholding income tax for the enterprise, and realize the deduction before tax through amortization year by year, which can reduce the tax base of the enterprise income tax. So when the enterprise selects the investment subject, it can select the tangible investment and immaterial investment which are better than the monetary investment from the view of the invested enterprise. Certainly, for the view of investing enterprise, it will assume more tax burdens such as the enterprise income tax, the increment tax and the consumption tax when it selects the tangible investment and immaterial investment, so the investing enterprise should comprehensively consider the tax burdens of two parties to select the proper investment form.

3. Tax planning in the production and management stage of enterprise

The tax base of the enterprise income tax is the taxable income amount which equals to that an enterprise's total income amount of each tax year deducts the tax-free incomes, tax-exempt incomes, each deduction items as well as the permitted remedies for losses of the previous years. And the income items, tax-free incomes and tax-exempt incomes and each deduction items are all generated in the production and management of the enterprise. So the tax planning of the enterprise income tax in the production and management can be implemented from two items such as the income items and the deduction items.

3.1 Tax planning of income

The total income amount of the enterprise in the present term is decided by the sales amount of the product, the unit sales price of the product and the selected sales mode of the product, so the tax planning of the enterprise income tax about the income mainly includes the scale of production and sale, the sales price and the sales mode. First, for the planning of production and sale scale, under the premise of certain sale unit price, the income scale of the enterprise is decided by the sales amount. The scale of production and sale belongs to the item independently controlled by the enterprise, and the scale of production and sale will influence the tax burden of the enterprise which will influence the scale of production and sale in the same way. Therefore, when the enterprise confirms the scale of production and sale, it must consider the tax burden at term. According to the enterprise's self management ability, the enterprise should find the critical point of profit and loss, and seek the scale of production and sale with maximum profits. Second, for the planning of sales price, under the premise of certain production and sale amount, the income scale of the enterprise is decided by the price level which is also the item independently controlled by the enterprise. The enterprise should consider many factors such as the cost level, the market demand and the competition strategy, and the tax burden level is the important factor which should be considered by the enterprise, and the confirmation of the sales price can not only include the pre-tax income and income tax of the enterprise, but will directly influence the increment tax and other relative taxes. In the tax planning of income, we should take the sales price as the factor we should mainly considered. Third, for the planning of sales mode, in the sales process of the product, the enterprise possesses the independent selection right to the sales mode, and different sales mode always apply in different tax policies, i.e. the treatment difference of tax exists in this aspect, which offers the possibility to utilize different sales mode to plan the income tax.

In a word, under the premise disobeying the tax law, the enterprise should compress the income scale which has exceeded the critical point of the tax rate from the sales scale and the sales price, and make the enterprise obtain the preference policies of low tax rate. For the selection of sales mode, the enterprise should delay the implementation of the income and the tax obligation to the best, which will not only compress the income scale in the present term to make the enterprise obtain the preference policy of low tax rate, but also make the enterprise obtain the profit of interest-free loan because of delaying the implementation of tax obligation.

3.2 Tax planning of cost charge deduction

The payout of the enterprise can be divided into the profitable payout and the capital payout according to the time of the profitable term. The profitable payout should be reported in the present cost charge, and the capital payout is divided and respectively reported in the cost charges of the present and future terms. For these two sorts of payout, the planning of the enterprise income tax should treat them differently.

3.2.1 Tax planning of profitable payout

Because different situations of profit and loss, and different tax preferences will differently influence the tax planning of

enterprise, so we should respectively plan the tax of the profitable payout aiming at different situations of profit and loss. First, suppose the enterprise is profitable, because the profitable payout can be deducted from the enterprise income tax, the enterprise should select the planning method with large prophase cost. To make the tax deduction effect of the cost exert its function as soon as possible, and delay the realization of the profit, then enterprise should delay the tax obligation time of the income tax. Second, suppose the enterprise is in loss, the planning method should be combined with the loss remedy of the enterprise. The enterprise should try to make the cost charge in the year with pretax loss remedy higher and make the cost charge in the year without or incompletely with pretax loss remedy lower, and accordingly ensure the tax reduction effect of the cost charge will be exerted to the largest extent. Finally, suppose the enterprise is enjoying the preference policy of the enterprise income tax, because the tax deduction effect of the cost charge in the tax deduction period will completely or partly be deducted through the deduction preference, so the enterprise should select the planning method which has few costs in the tax deduction period and has more costs in the non-tax-deduction period.

3.2.2 Tax planning of capital payout

As the modernization degree of enterprise is gradually enhanced, the proportion of the purchase payout of the long-term assets such as the fixed assets and immaterial assets which reflect the progress of the technology of the enterprise is higher and higher, and the tax planning of the fixed assets depreciation and the immaterial assets salesmanship possesses special importance in the tax planning of the enterprise income tax. First, the tax law doesn't recognize the devaluation preparation of long-term assets which the enterprise picks up, but the taxpayer can utilize the relative regulations about the subsequent expenses of the long-term assets to adjust the depreciation base. The enterprise should combine the long-term development, rebuild the fixed assets designedly, enhance the technical level of the enterprise, and improve the comprehensive competition strengthen of the enterprise. At the same time, the enterprise can put the subsequent expenses according with the capitalization conditions into the fixed assets cost, increase the depreciation picking base, and accordingly increase the depreciation amount of the deduction, reduce the taxable income of the present term and save the tax. For various payouts which don't accord with the confirmation conditions of long-term assets, they should be counted into the profit and loss of the present term. Second, the "Chinese Enterprise Income Tax Law" regulated that the fixed assets of the enterprise needed to be depreciated quickly because of technical progress, the enterprise could reduce the depreciation fixed number of year or adopt the method of quick depreciation. To reduce the depreciation year can quicken the withdrawal of the costs, move the anaphase cost charges to the anterior period, and move the prophase account profit to the latter period. When the tax rate is fixed, the delayed payment of the income tax equals to obtain an interest-free loan from the country. When the tax rate is not fixed, the extension of the depreciation term can also reduce the tax burden for the enterprise. And the selection of the depreciation method of the long-term assets should be scientific, reasonable and legal. Finally, when the enterprise is in the non-deduction period of the income tax, taxpayer should apply for reducing the residual proportion for the tax department in time according to the characters of the assets. When the residual proportion is reduced, the depreciation tax deduction will increase, which could not only maintain the taxpayer's right, but bring large tax benefit for the taxpayer.

4. Tax planning in the management result distribution stage of enterprise

4.1 First utilizing the taxable income to compensate the loss

For the yearly loss of the enterprise, the tax law regulates to allow the enterprise uses the pretax profit in the next year to compensate it. And if the profit in the next year is not enough to compensate, the enterprise is allowed to compensate the loss year after year, but the longest term should be limited in 5 years. In this way, the enterprise can use the selection right of the assets price counting and amortization method allowed by the tax law, and the selection right of the expenses reported range standard to more report the pretax deduction items and deduction amount, and continue to induce the loss before the term of five years is at term, accordingly to prolong the term of the preference policy.

4.2 Arranging the domestic investment return to compensate the loss according to the sequence from low tax rate to high tax rate

According to the enterprise income tax, the investors' after-tax profits returned from the associated enterprise should pay the income tax, but if the enterprise which is the investor has loss or past yearly loss which has not be remedied, the returned profit can be used to remedy the loss, and for the surplus part, the enterprise should pay the income tax. Therefore, if the investor is the enterprise which can be applicable for different income tax rates, the enterprise can select the sequence from low tax rate to high tax rate, to use the returned investment profit remedy the loss and make the taxpayer's income tax reduce to the least level.

4.3 Keeping that the investment return in the low tax region doesn't be distributed

In the existing enterprise income tax, for the taxpayer's profit returned from other enterprise which has paid the income tax, the tax amount of the tax payment can be adjusted when computing the income tax of the enterprise. If the profit of the invested enterprise has not be distributed to the investors, the investors need not to pay the income tax, and in this

way, to keep that the investment return in the low tax region doesn't be distributed and turn it into the investment capital can reduce investors' tax burden.

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