

A Brief Discussion on the Penetration Point and Techniques of Tax Planning

Fang He*

School of Management, Liaoning Institute of Science and Technology, Benxi 117004, Liaoning Province, China

*Corresponding author: Fang He, bxjjxhf@163.com

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Abstract: Tax cost is one of the costs of business activities, and tax planning has become an indispensable financial activity. How to carry out effective tax planning has been the focus of enterprises. Therefore, this paper intends to discuss how to carry out tax planning from the penetration point and techniques of tax planning, with an aim to provide reference for enterprises' tax planning activities.

Keywords: Tax planning; Penetration point of tax planning; Tax planning techniques

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1. Introduction

Tax planning, often known as “reasonable tax avoidance,” refers to the practice of reducing tax burden, increasing profit, and enhancing the value of an enterprise by arranging all kinds of financial activities in advance while abiding by all applicable laws and regulations. One of the areas on which enterprises have been emphasizing is the reasonable and efficient implementation of tax planning. In order to ensure effective and reasonable tax planning, it is crucial to know where tax planning should begin; that is to say, the penetration point of tax planning. Only by identifying the penetration point of tax planning, the subsequent planning work can be effective. On the other hand, the techniques of tax planning are also the focus in this area. In light of this, this paper assumes the taxpayer identify, the tax object, the basis of taxation, the tax rate, the step of tax payment, and the time of tax obligation as the penetration point, as well as introduces several tax planning techniques, such as offset technique, split technique, tax reduction or exemption technique, tax rebate technique, low tax rate technique, tax deferral technique, and tax deduction technique.

2. Penetration point of tax planning

The various elements of tax law can be used as the penetration point, including taxpayer, tax object, tax rate, tax basis, tax collection step, tax obligation time, tax preference, and so on ^[1].

2.1. Taxpayer identity as the penetration point of tax planning

According to the tax law, each tax has its own specific taxpayer; even if it is the taxpayer of the same tax, the tax burden will vary depending on the identity of the taxpayer. Therefore, in designing the tax planning scheme, the taxpayer identity should be carefully studied in regard to the specific classification of taxpayer and different tax calculation methods. For example, a sole proprietorship is the taxpayer of individual income tax, whereas a corporate enterprise is required to pay corporate income tax. From this understanding,

it is then possible to compare whether it is appropriate to set up a sole proprietorship enterprise to pay individual income tax or a one-person limited liability company to pay enterprise income tax ^[1].

The tax payable of value-added tax (VAT) general taxpayer is usually calculated by the general tax method, while small-scale VAT taxpayers tend to opt for the simple method of collection. Therefore, when an enterprise carries out tax registration, it should compare the VAT tax burden of general taxpayers with that of small-scale taxpayers, and then select the tax identity with the lowest VAT tax.

In terms of enterprise income tax, a branch does not have legal personality; therefore, it pays the enterprise income tax together with the head office. Furthermore, the branch office's losses may offset the profits of the head office, but since the branch office does not have legal personality, it is only eligible to enjoy the same tax incentives as the parent company. On the other hand, a subsidiary company is an independent legal entity that pays its own taxes and applies its own tax policies; its losses do not offset the profits of the parent company. Therefore, in the establishment of branches, enterprises must consider their own current situation and choose to set up either branches or subsidiaries ^[2].

2.2. Tax object as the penetration point of tax planning

Each tax has its own specific tax object, so enterprises can begin tax planning from the tax object while excluding their products from the scope of the tax object. For instance, in consumption tax planning, the object of consumption tax is limited to several categories of taxable consumer goods stipulated in the tax law; certain goods are considered taxable consumer goods only when the prices are not lower than the critical point. Therefore, enterprises can lower the prices skillfully to prevent their products from becoming taxable consumer goods, which will reduce the burden of consumption tax ^[3].

2.3. Tax rate as the penetration point of tax planning

The amount of tax payable depends on the tax rate; the higher the tax rate, the heavier the tax burden. Enterprises can start with the tax rate and benefit from them to enjoy low tax rates, thereby reducing the burden of corporate tax. For example, the Enterprise Income Tax Law stipulates that the corporate income tax rate of high-tech enterprises, recognized technologically advanced service enterprises (service trade type), and encouraging industries registered in Hainan Free Trade Port is 15%, whereas the income tax rate of small and micro businesses is 20%. On the one hand, qualified enterprises can apply for high-tech enterprises, while taxpayers, on the other hand, can opt to set up their businesses in low-tax zones to enjoy low-tax policy ^[4].

2.4. The basis of tax calculation as the penetration point of tax planning

For each tax, there is specific tax calculation and its own tax basis. The greater the basis for calculating taxes, the greater the amount of tax paid. Therefore, it is possible to start from lowering the basis on which taxes are calculated in order to reduce the tax burden. For example, enterprise income tax is based on taxable income, in which the higher the taxable income, the heavier the tax burden. Hence, in enterprise income tax planning, it may be beneficial to start by reducing income, increasing deductible items, and so on, so as to reduce taxable income and lower corporate income taxes.

Consumption tax is based on the sales amount or sales volume of taxable consumer goods. Hence, in consumption tax planning, the company can set up an independent accounting department to reduce sales amount or sales volume by means of transfer pricing. Other than that, it is possible to reduce consumption tax by signing a sales contract and then using the sales amount owed by the other party to invest and offset debt, so as to avoid paying the highest rate set by the tax authorities.

Property tax is based on the residual value of a house or the rent of a house. Hence, in property tax planning, the rent can be lowered by converting part of the rent into storage fees by means of leasing or

warehousing to lower property taxes.

The land value-added tax will be levied based on the added value; the greater the added value, the higher the rate of land value-added tax, and the larger the amount of land value-added tax paid. Therefore, land value-added tax planning can boost deductions while reducing the land value-added, so as to lower the land value-added tax ^[5].

2.5. Preferential tax policy as the penetration point of planning

In order to reflect China's policy orientation, a series of preferential tax policies have been put forward for each tax category. Therefore, when planning and designing, enterprises should carefully study the series of preferential tax policies issued by the State while considering their own situation, so as to determine what tax benefits they can enjoy to achieve tax reduction or exemption. In using tax incentives for planning, it is crucial to maintain efficient communication with the tax authorities, so as to prevent misinterpretations of tax laws or improper procedures that would hinder the enterprise from enjoying tax incentives.

For example, both the VAT and the corporate income tax include tax reduction or exemption for technology transfer. However, the contracts for technology transfer are to be decided by the relevant departments, and the scope of technology transfer has been clearly defined. In addition, the accounting component requires separate accounting and reasonable apportionment of related costs ^[6].

2.6. Tax with high tax burden and large planning space as the penetration point of tax planning

Theoretically, all kinds of taxes can be used as the tax object. However, based on the principle of cost effectiveness, a tax with higher tax amount should be chosen, while those with small tax amount should not be the focus of tax planning. For example, value-added tax and corporate income tax are relatively heavy burdens for enterprises. Furthermore, for enterprises with taxable consumer goods, consumption tax is a heavy burden, while land value-added tax is similar for real estate enterprises. Therefore, in tax planning, these taxes should be selected while considering the actual situation of each enterprise ^[7].

2.7. Other factors that affect the tax amount as the penetration point of tax planning

The other factors that affect the tax amount include the step of tax payment and the time of tax payment obligation. Therefore, tax planning can also begin from the step of tax payment and the time of tax payment obligation, in order to obtain tax benefits.

For instance, in VAT planning, a suitable settlement method can be selected, such as the use of installments to postpone tax obligations and obtain a relative reduction in tax. In consumption tax planning, the tax law stipulates that for self-produced taxable consumer goods for the taxpayer's own use in the continuous production of taxable consumer goods, no consumption tax shall be paid; in addition, for purchased taxable white spirit used in the continuous production of taxable consumer goods, the amount of consumption tax paid cannot be written off. According to this provision in the Consumption Tax Law, mergers and acquisitions (M&A) and other means can be used to reduce the tax step of spirit goods, converting the purchase of white spirit into home-made white spirit, in order to avoid the step of purchasing white spirit ^[8].

3. Tax planning technologies

3.1. Offset technique

The offset technique is a tax-planning technique that increases the amount of tax offset. It is subjected to the principles of legality and reasonability. According to the Enterprise Income Tax Law, enterprises that purchase environmental protection equipment, safety production equipment, as well as energy-saving and water-saving equipment can offset their enterprise income tax by 10% of the investment amount ^[9].

3.2. Tax rebate technique

The idea behind the tax rebate technique is to take advantage of tax rebate preferences after carefully examining the tax preference policies of various types of taxes. For example, the Law on Value-Added Tax stipulates that the portion of the actual value-added tax burden of software enterprises, animation enterprises, pipeline transportation services, and tangible movable property leasing services that exceeds 3% shall be returned in addition to the export value-added tax. The Consumption Tax Law provides tax exemption and rebate policies for exported taxable consumer goods. Therefore, enterprises can enjoy tax rebates to reduce tax burden by choosing products for export or investing in products with tax rebate preference ^[10].

3.3. Tax reduction or exemption technique

The tax reduction or exemption technique is based on the principles of legality and reasonability, beginning with taxpayer, tax objects, and so on. By taking taxpayers or the activities they engage in as the object of tax relief, this strategy allows taxpayers to pay less tax or even none at all.

The tax reduction or exemption technique makes full use of the tax reduction or exemption policy in various tax preferential policies to enjoy tax reduction or exemption. For example, the Enterprise Income Tax Law stipulates that tax exemption or reduction policies are available to taxpayers who serve in agricultural, forestry, animal husbandry, and fishing industries. In order to implement the decisions and plans of the Central Committee of the Chinese Communist Party and the State Council, reduce the tax and fee burden on small and micro enterprises, as well as better serve the development of market entities, the Ministry of Finance and the State Administration of Taxation jointly issued Announcement No. 10 in 2022 to make it clear that the People's Governments in provinces, autonomous regions, and municipalities directly under the Central Government shall, in light of the actual conditions of their respective regions and needs of macroeconomic regulation and control, determine the value-added tax on small-scale taxpayers, small-scale micro-profit enterprises, and individual businesses within the 50% tax range with a reduction in resources tax, urban maintenance and construction tax, real estate tax, urban land use tax, stamp tax (excluding securities transaction stamp tax), farmland occupation tax, education fees, and local additional education fees (hereinafter referred to as "six taxes and two fees"). Furthermore, the State once again has increased its support for small-scale VAT taxpayers from April 1, 2022, to December 31, 2022, where small-scale taxpayers shall be exempted from VAT on taxable sales income at a rate of 3% ^[11].

3.4. Tax deferral technique

The tax deferral technique refers to deferred tax payment according to the time of tax obligation under the premise of legality and rationality. For example, enterprises can implement quarterly prepayment planning for income tax, different sales and settlement options planning, as well as accelerated depreciation of fixed assets planning, so as to obtain tax benefits.

3.5. Deducting technique

The deducting technique refers to increasing the amount of deductible items as much as possible or through other means, such as the selection of accounting policies, as early as possible, based on the principles of legality and rationality. For instance, on the one hand, it is conceivable to maximize an enterprise's pre-tax deductions and obtain absolute benefits by deducting R&D expenditures and the wages of disabled employees; on the other hand, by adopting the inventory costing method and the preferential tax policy of accelerating fixed asset depreciation, the relative benefit of tax saving can be obtained ^[12].

3.6. Split technique

The split technique is one in which a taxpayer is split into several taxpayers, or a tax basis is divided into a number of different tax rates, different types of tax, or different preferential policies to enjoy tax preferences. For instance, for enterprises that do not meet the conditions of small and micro enterprises, they can be split to meet the conditions, and thus enjoy tax preferences; for small-scale taxpayers with monthly sales of more than RMB150,000 (quarterly sales of more than RMB450,000), the tax exemption is available through a split; for those who enjoy tax deductions and exemptions, the tax reductions and exemptions may be split, so that they can enjoy the tax reductions and exemptions separately ^[13].

3.7. Low-rate technique

The low-rate technique refers to applying lower rates directly through planning or applying lower levels of rates by reducing the basis for calculating taxes. This technique is for taxes with preferential or progressive rates and is also subjected to the principles of legality and reasonability. For example, for enterprise income tax, qualified enterprises can apply for high-tech enterprises to enjoy the 15-percent low tax rate policy; on the other hand, the size of enterprises can also be controlled to enjoy the 20-percent low tax rate policy of small and micro enterprises through the splitting technique. For land value-added tax and personal income tax, the basis for tax calculation can be reduced to apply lower levels of tax rates ^[14].

4. Conclusion

In conclusion, for tax planning, one can begin from the components of the tax law, including the identity of the taxpayer, the tax object, the basis of tax calculation, the tax rate, the tax payment step, and the tax obligation time, and then select taxes with a larger tax burden. When carrying out tax planning, it is possible to adopt one or more tax planning techniques, such as tax rebate technique, split technique, tax reduction or exemption technique, tax deferral technique, low tax rate technique, tax deduction technique, and offset technique according to the actual conditions of the tax and enterprise. However, it is worth mentioning that tax planning is not tax evasion; it must not violate the tax law to achieve the purpose of reducing the tax burden. Therefore, prior to tax planning, the provisions of the tax law must be carefully examined, and the latest tax policies must be paid attention to; additionally, there must be efficient communication with the tax authorities to avoid abuse or misuse of the provisions of the tax law, which would result in planning risks ^[15].

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