

# *A Brief of Analysis of Enterprise Income Tax Planning*

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**Abstract:** As one of the main taxes in our country, enterprise income tax has the characteristics of heavy tax burden and difficult to transfer, its amount directly affects the net profit of the enterprise, and is closely related to the immediate interests of the enterprise. Therefore, it has become an important problem for financial personnel to do well the enterprise income tax planning, make the best enterprise income tax planning to reduce the enterprise income tax burden, and increase the company's net profit. This paper is to design the plan of enterprise income tax from the aspects of taxpayer's identity selection, deducting items and tax preference, so as to provide ideas and references for the company's enterprise income tax planning.

## **1. Introduction**

Tax Planning, also called reasonable tax avoidance, is one of the contents of enterprise financial management activities. Tax Planning means that, on the premise of not violating the tax law, it can reduce the tax burden of the enterprise, increase the economic benefits of the enterprise and improve the financial management level of the enterprise through the tax planning of the enterprise's financing, investment, production and operation, etc., and then realize the goal of maximizing enterprise value. Enterprise income tax is one of the largest taxes paid by enterprises, which directly affects the net profit of enterprises. The Enterprise income tax planning is of great significance to the survival and development of enterprises. In addition, the introduction of a series of preferential tax policies also provides some planning space for the enterprise income tax, such as the choice of taxpayer identity, deduction items and tax preferences. To sum up, the enterprise income tax planning has a certain necessity and feasibility, doing a good job of enterprise income tax planning can reduce the burden of enterprise income tax to a certain extent, increase the economic benefits of enterprises, improve the financial management level of enterprises. [1]

## **2 Taxpayer identity selection planning**

### **2.1 Through the Split to obtain small low-profit enterprises preferential tax planning**

Small low-profit enterprises are those engaged in non-restricted and prohibited industries, and whose annual taxable income does not exceed 3 million, the number of employees does not exceed 300, and the total assets do not exceed 50 million. In March 2022, the Ministry of Finance and the State Administration of Taxation issued the announcement on the further implementation of

preferential policies on income tax for small and micro enterprises (No. 13 of 2022), continuously strengthening the preferential policies on income tax for small low-profit enterprises, the portion of annual taxable income amount of a small low-profit enterprise which does not exceed RMB1 million shall be computed at a reduced rate of 12.5% as taxable income amount, and be subject to enterprise income tax at 20% tax rate; the portion of annual taxable income amount which exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate. [2]

According to this preferential policy, the income tax burden of small low-profit enterprises is very low, the actual tax burden is 2.5% and 5% respectively. Therefore, in order to enjoy the preferential treatment of small low-profit enterprises, for some enterprises that do not meet the conditions of small low-profit enterprises, they can be split into small low-profit enterprises to enjoy the preferential tax policies of small low-profit enterprises, and reduce the tax burden of enterprise income tax, increase the net profit of the company.

#### Case 1

The company has two relatively independent departments, namely, agent bookkeeping and tax consulting. The estimated taxable income of the company in 2022 is 3.2 million yuan, while the taxable income of the agent bookkeeping department is 1 million yuan, the taxable income of the tax consulting department is 2.2 million yuan. The company employs 200 people and has a total assets of 20 million yuan.

Before planning: The amount of taxable income is 3.2 million yuan, which does not meet the definition of small low-profit enterprises. The Enterprise income tax is  $3,200,000 \times 25\% = 800,000$  yuan;

Taxing plan: split the Accounting Service Company into two independent named Accounting Agency Bookkeeping Companies and Tax Consulting Companies, bookkeeping agency taxable income of is 1 million, the taxable income of a tax consulting company is 2.2 million yuan.

The taxable income of an agent bookkeeping enterprise does not exceed 1 million yuan, and according to the preferential policies, the taxable income amount may be computed at a reduced rate of 12.5% as taxable income amount, and be subject to enterprise income tax at 20% tax rate. The amount of enterprise income tax payable by an agent bookkeeping enterprise =  $(1,000,000 \times 12.5\%) \times 20\% = 25,000$  yuan;

The amount of taxable income of a tax consulting enterprise exceeds RMB1 million but does not exceed RMB3 million shall be computed at a reduced rate of 25% as taxable income amount, and be subject to enterprise income tax at 20% tax rate in accordance with preferential policies. The amount of enterprise income tax payable by the tax consulting enterprises =  $1,000,000 \times 12.5\% \times 20\% + 1,200,000 \times 25\% \times 20\% = 85,000$  yuan. The total amount of enterprise income tax payable by the two enterprises shall be  $25,000 + 85,000 = 110,000$  yuan. After comparison and analysis, it is found that after planning, the company can save  $800,000 - 110,000 = 690,000$  yuan in tax.

## 2.2 Tax planning through the establishment of a subsidiary or branch

According to the provisions of the Tax Law, the subsidiary is an independent legal person, which applies its own tax policy and pays its own tax, and can not be combined with the parent company to pay tax, the losses of the subsidiary company can not offset the profits of the parent company; and the branch company does not have the legal personality, and should enjoy the same tax policy and pay taxes as the head company. The losses of the branch company can offset the profits of the head company. Therefore, when the head office is profitable and the newly-established branch may incur losses, the head office model should be chosen; when the head office enjoys preferential tax treatment and the branch does not, the head office model can be chosen, the branch may also enjoy preferential

tax treatment; if the location where the branch is established has a regional tax preferential policy, the branch may be established as a subsidiary so that the preferential policy can be applied. [3]

#### Case 2

Guanghua Enterprise is a machinery manufacturing enterprise located in the urban area. In recent years, the products produced by the enterprise sell well and the enterprise has been in a profitable state. It is estimated that the taxable income from 2022 to 2024 will be 5 million yuan each. In order to further expand the scale of production, it is planned to set up an additional branch in another place. It is estimated that the new branch will require an investment of 25 million yuan and employ no more than 200 workers, the amount of taxable income for the next three years is expected to be 1 million yuan, 2 million yuan and 2.5 million yuan respectively. Please analyze whether it is advantageous to set up a subsidiary or a branch?

#### Plan 1—to set up a branch

If the establishment of a branch, the company needs to be combined with the head office to calculate the enterprise income tax, can not enjoy the small low-profit enterprise preferences, during the period of the year of 2022-2024, the enterprise income tax payable will be  $(500 \times 3 + 100 + 200 + 250) \times 25\% = 5.125$  million yuan

#### Option 2—establishment of a subsidiary

If a subsidiary is established, then the total assets, the number of employees and the annual taxable income of the newly established branches all meet the conditions of small-scale micro-profit enterprises, and can enjoy the tax preference of small low-profit enterprises. The enterprises income tax payable of parent company from 2022 to 2024 =  $500 \times 3 \times 25\% = 3.75$  million yuan; while enterprise income tax payable by subsidiary company from 2022 to 2024 =  $(100 \times 12.5\% \times 20\%) + (100 \times 12.5\% \times 20\% + 100 \times 25\% \times 20\%) + (100 \times 12.5\% \times 20\% + 150 \times 25\% \times 20\%) = 0.2$  million yuan; the total tax payable by parent and subsidiary company =  $3.75 + 0.2 = 3.95$  million yuan.

From the above analysis, the option 2 saves  $5.125 - 3.95 = 1.175$  million yuan in corporate income tax compared with option 1, so the company should choose option 2 to set up subsidiary company.

### 3. Tax Planning of deductible items

#### 3.1 The tax planning of salary, three funds and insurance

The tax law stipulates that the reasonable wages and salaries actually paid by an enterprise may be deducted, and that the wages of disabled persons may be deducted by an additional 100 per cent on the basis of the actual deduction. However, there are three provisions for limited deductions of funds: For example, Trade Union dues are not allowed to exceed 2 per cent of the total amount of wages, employee benefits expenses are not allowed to exceed 14 per cent of the total amount of wages, and the excess is not allowed to be deducted; and education expenses are not allowed to exceed 8 per cent of the total amount of wages, the excess is allowed to be carried forward for subsequent years. The basic social insurance may be deducted, but the supplementary old-age insurance and supplementary medical insurance can not exceed 5% of the total salary respectively. Therefore, in tax planning, we should limit the three items of funds that can not be deducted in full, such as supplementary insurance, and so on, and try to employ persons with disabilities as much as possible when they are competent for work, which can make the actual expenses of enterprises deducted as early and more as possible to reduce the enterprise income tax taxable income and the enterprise income tax burden. [4]

#### 3.2 R & D expense planning

Starting from 1 January of the 2021, for the expensed portion of the actual R & D expenditure incurred by the enterprise in carrying out R & D activities, manufacturing enterprises may be

deducted by an additional 100 per cent on the basis of the actual amount incurred; other enterprises may be deducted by an additional 75 per cent on the basis of the actual amount incurred. If an intangible asset is formed, it will be amortized before tax at 200% or 175% of the intangible asset cost during the above-mentioned period. [5]

In order to enjoy the preferential tax policy of R & D Cost additional deduction, enterprises should carry out accounting treatment of R & D expenditure in accordance with the requirements of the National Financial Accounting System; at the same time, they should set up auxiliary accounts according to R & D projects for R & D cost additional deduction, the actual amount of various R & D expenses that can be additional deducted in the current year shall be accurately collected and accounted for. If an enterprise conducts multiple R & D activities within a tax year, it shall collect the R & D expenses that can be deducted according to different R & D projects; in addition, the enterprise shall separately account for the R & D expenses and the production and operation expenses, accurate and reasonable collection of all expenses and expenditures, if the division is not clear, it may not be additional deductions. [6]

### **3.3 The tax planning of depreciation of fixed assets**

The tax law provides that, as a result of technological progress, for fixed assets with rapid product replacement or fixed assets in a state of strong vibration and high corrosion over a long period of time, depreciation can be shortened or accelerated, such as the sum of years method and the double declining balance method; in addition, for newly purchased equipment and appliances with unit value not exceeding 5 million yuan during the period from January 1, 2018 to December 31, 2020, the one-time cost is allowed to be deducted in calculating the taxable income amount, and depreciation is no longer calculated annually, the policy was extended until December 31, 2023. [7]

Therefore, in the tax planning of depreciation of fixed assets, it is mainly to shorten the depreciation period, defer tax obligations, and obtain the relative benefits of tax planning. However, when enterprises shorten the depreciation period or adopt the accelerated depreciation method, they should pay attention to the inappropriateness of adopting the above-mentioned method during the tax deduction period, because enterprises are in the period of tax deduction and deduction, the impact of accelerated depreciation on enterprise income tax is negative, which not only can not pay less tax, but will pay more tax; in addition, the use of the method must consider the loss of 5 years to make up for the period. [8]

### **3.4 The tax planning of donations**

The tax law stipulates that the amount of charitable donations incurred by enterprises shall be allowed to be deducted, but it can not be more than 12 per cent of the total annual profits, and the excess donations can be deducted within the next three years. The term “Charitable donations” refers to the donations made by enterprises to public welfare undertakings as stipulated in the “Law of the People's Republic of China on donations to public welfare undertakings” through public welfare social groups or Government of the People's Republic of China at or above the county level and their departments. Donations made by enterprises in poverty-relief areas may be deducted in full. [9]

Therefore, when planning donations, enterprises should pay attention to the ways, objects and amounts of donations. On the one hand, donations must be made through public welfare organizations or Government of the People's Republic of China at or above the county level and their departments, so that direct donations can not be made. On the other hand, the object of donation must be public welfare, preferably to the poor areas; Finally, the amount of donation should be limited to 12% of accounting profits. In this way, the enterprise can deduct as much as possible from the actual amount of donation and deduct it as early as possible so as to avoid improper donation methods. If the donor

does not meet the requirements and the amount of the donation is excessive, no deductions, less deductions, or late deductions are allowed.

## 4. Tax Preference Planning

### 4.1 Tax preference planning of tax reduction and exemption

Tax Law provides that the income from enterprises engaged in agriculture, forestry, animal husbandry and fishery, income from technology transfer, income from investment in public infrastructure projects supported by the state, environmental protection and energy and water conservation projects that meet the requirements are exempted or reduced from corporate income tax. Therefore, in the choice of investment projects, enterprises can choose the industries which enjoy the tax preference of tax reduction and exemption. [10]

### 4.2 The tax planning of preferential tax rates

The tax law stipulates that the enterprise income tax shall be levied at a reduced rate of 15 per cent on high-tech and new-tech enterprises supported by the state, service enterprises recognized as technologically advanced, industrial enterprises located in the western regions and the Hainan Free Trade Port; The small and micro enterprises will be taxed at a reduced rate of 20%.

Therefore, in planning the tax rate, on the one hand, an enterprise can apply to become a high-tech enterprise or a technologically advanced service enterprise, or it can separate out the high-tech department or technologically advanced service department of the enterprise to enjoy a low tax rate of 15%; on the other hand, when making investment decisions, it is also possible to register businesses in tax-free or low-tax areas.

## 5. Conclusion

The planning of enterprise income tax is very important for enterprises, and its planning methods are various. Each enterprise can design effective tax planning scheme according to its own actual situation and current tax policy. But it is worth noting that tax policy is changing, so when doing tax planning, we should always pay attention to the changes in tax policy, especially the application of tax incentives. In addition, the enterprises should make an active communication with the tax authorities to have a better understanding of tax policy, which can avoid the failure of tax planning caused by the policy misunderstanding.

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