

Value-Added Tax Planning for Small and Micro Enterprises

Fang He¹

¹*School of Management, Liaoning Institute of Science and Technology, Benxi, 117004, China*

**Corresponding author: bxjxhf@163.com*

Keywords: Small and micro enterprises, Value-added tax, Tax planning

Abstract: Small and micro enterprises are a force that can not be ignored in China's economic development. In order to support the development of small and micro enterprises, the state has issued a series of preferential policies to reduce the tax burden of small and micro enterprises, which makes the tax planning of small and micro enterprises have a larger space. Taking value-added tax (VAT), one of the main types of tax for small and micro enterprises, as an example, this paper discusses the way of VAT tax planning from the angles of the choice of taxpayer identity, the choice of suppliers, taxation basis, the way of tax calculation, concurrent marketing behavior and tax preference to provide reference for small and micro enterprises to reduce the VAT burden.

1. Introduction

With the development of economy, people pay more and more attention to the tax burden. The problem that enterprises are facing is that the tax burden is too heavy. The number of our country's small-scale and small profit enterprise is huge, and has involved in each profession domain, its existence has solved our country many employment questions, has promoted the people's livelihood and the social development, is the economic strength which can not be ignored. In order to support the development of small and micro enterprises, the state has issued a series of preferential policies to reduce the tax burden of enterprises. The introduction of preferential policies has given small and micro enterprises a great respite, but the preferential policies are only one side, what is more important is to start from the small and micro enterprises themselves, actively carry out tax planning, under the premise of not violating laws and regulations, through active and effective tax planning to help small and micro enterprises to reduce unnecessary tax expenditures, legal tax avoidance within the scope of the law, increase the profits of enterprises, to win more funds for the daily operation of enterprises to help small and micro enterprises better development. [1]

2. The way of small and micro-enterprises VAT planning

2.1 Choose the taxpayer's identity reasonably

VAT taxpayers are divided into general taxpayers and small-scale taxpayers, general taxpayers usually adopt the general tax method, but the small-scale taxpayer can only adopt the simple

collection method to calculate the tax. [2] So when the enterprise is registered how to choose the taxpayer identity in the end, so that its VAT tax burden is lower. We can use the gross margin method to determine the gross margin of the VAT tax break-even point for both general and small-scale taxpayers. As a small-scale taxpayer, the tax burden is lighter when the gross profit margin of the enterprise selling the product is higher than the gross profit margin of the indifference balance point in the table; As a general taxpayer, the tax burden is lighter when the gross profit margin of the products sold by the enterprise is lower than the gross profit margin of the indifference balance point in the table. [3] The gross profit margin of the indifference balance point is shown in Table 1.

Table 1: The gross profit margin of the indifference balance point

general taxpayer sales tax rate	general taxpayer purchase tax rate	small-scale Taxpayer Levy rate	gross profit margin of the indifference balance point
13%	13%	3%	23.08%
9%	9%	3%	33.30%
13%	9%	3%	-11%
9%	13%	3%	53.85%

Case 1

Sunshine Fertilizer Production Co., Ltd. produces and sells agricultural fertilizer. The annual sales excluding value added tax is 10 million yuan, and the applicable tax rate of sales is 9%, purchases excluding value added tax is 4 million yuan. The applicable tax rate is 9%. Please analyze whether the enterprise is cost-effective as a general taxpayer or as a small-scale taxpayer?

If according to the general taxpayer status, the value-added tax payable = $10,000,000 \times 9\% - 4,000,000 \times 9\% = 540,000$ yuan

The enterprise's gross profit is 60% [$(10,000,000 - 4,000,000) / 10,000,000$], more than the gross profit margin of the indifference balance point 33.3%, the tax burden is lighter as a small-scale taxpayer.

Therefore, enterprises can be divided into two independent accounting enterprises, so that their sales do not exceed 500 million yuan, in line with small-scale taxpayer standards. The tax payable after the split-up is 300,000 yuan ($10,000,000 \times 3\%$), which is 240,000 less than the tax payable before the split-up.

It is worth mentioning that during the epidemic, the state introduced a series of preferential tax policies, such as from April 1, 2022 to December 31, 2022, small-scale value-added tax taxpayers apply a 3% rate of taxable sales income, VAT exemption; The value-added tax items with the rate of 3% shall be paid in advance and the value-added tax shall be suspended. According to the present preferential policy, if the enterprise chooses the small-scale taxpayer, may exempt pays the value-added tax, thus saves the value-added tax 540,000 yuan. [4]

2.2 Choose suppliers with different taxpayer identity to plan

The input VAT of goods purchased by General taxpayers from small-scale taxpayers are not tax deductible or only 3 percent deductible, in order to make up for the loss caused by the inability to obtain the special invoice, small-scale taxpayers must be required to give a certain degree of price concessions, how much discount to make up for the loss? There is a price discount threshold. We assume that purchasing goods from different suppliers and then selling them at the same price will result in equal net profits, and thus derive the critical point at which small-scale suppliers should give price discounts when net profits are equal. The price discount threshold is shown in Table 2: [5]

Table 2: The Price Discount Critical Point

deduction rate for general taxpayers	deduction rate for small-scale Taxpayer	the price discount critical point
13%	3%	90.05%
13%	0	87.12%
9%	3%	93.81%
9%	0	90.75%

When the price of a small-scale taxpayer supplier is at a critical point, the benefits from the procurement of goods from the general taxpayer and the small-scale taxpayer are equal; when the price of a small-scale taxpayer is above the critical point price, you should choose to purchase from a General Taxpayer's supplier; otherwise, choose to purchase from a small taxpayer's supplier. However, if the taxpayer himself is a small-scale taxpayer or an ordinary taxpayer uses the goods purchased for simple taxation, tax-free items, collective welfare or personal consumption, the input VAT shall not be deducted, so you can choose the supplier with the lowest quotation directly. [6]

Case 2

The general taxpayer buys the steel for production and gets quotation: 13% special invoice, including tax price 50000 yuan per ton; the small-scale taxpayer issues 3% special invoice, including tax price 45000 yuan per ton. Should the enterprise purchase from a small-scale taxpayer?

The value-added tax is 13%, the leviable rate is 3%, and the price discount critical point is 90.05%, so only when the small-scale tax-included sale price is lower than 45025 yuan ($50000 \times 90.05\%$), can we consider purchasing from small-scale taxpayers. And the small-scale tax-included sale price is 45000, less than the price of critical point 45025, so the enterprise should purchase from a small-scale taxpayer.

2.3 The planning of taxation basis

The tax basis of value-added tax is the sales amount, which includes the total consideration and all other charges receivable from the purchasers by the taxpayer selling goods or taxable services, but excluding the output tax collectible. [7] Therefore, we can reduce the tax basis from some other charges, so as to reduce the VAT tax burden. For example, as far as possible, the deposit on the packaging of other alcoholic products other than beer and rice wine should not be collected, because the tax law stipulates that the deposit on the packaging of other alcoholic products other than beer and rice wine should be paid value-added tax as charges when it is collected, even after the return of the packaging, need to return the deposit, but also not allowed to return the tax paid. [8] In addition, there are some special sales methods, such as sales discount, if the sales amount and the discount amount are in the same invoice value column, the discount amount can be deducted, but if the discount amount is noted in the remarks column or the discount amount is issued separately, deductions are not allowed. Therefore, we will deduct the discount by the method of invoice to reduce the basis for tax, thus reducing the value-added tax. [9]

2.4 The planning of method of calculating the VAT

According to the provisions of the VAT law, the general taxpayers sell specific goods or provide specific services (such as running water, commodity concrete, public transportation services, movie screening services, warehousing services, loading and unloading services, collection services, cultural and sports services, etc.), they can choose to apply the simplified method of calculating the value-added tax at a leviable rate of 3 percent or 5 percent. [10] Therefore, the general taxpayer can compare the VAT tax payable of the general way of tax collection and simplified way of tax collection, and

choose a lighter tax burden method. Generally speaking, when the taxpayer expects a lot of input VAT in the future, the general tax method is adopted, otherwise, the simplified tax method is adopted. It is worth noting that changes are not allowed for 36 months after the option has been selected. [11]

Case 3

Huai'an water supply plant is a general taxpayer of value-added tax. In 2021. The annual sales of the plant amounted to 2 million yuan. The input tax stated on the special VAT invoice for obtaining electricity charges, repair tools, etc. in that year was 80,000 yuan, the same year also purchased a price of 10 million yuan large water purification equipment. How should the factory choose the mode of taxation to reduce the burden of VAT? (the above data do not include tax).

Option 1, if adopt the general tax method

The value-added tax payable = $2,000,000 \times 9\% - 80,000 - 10,000,000 \times 13\% = -1,200,000$ yuan

Option 2, if adopt the simplified tax method

the value-added tax payable = $2,000,000 \times 3\% = 60,000$ yuan

From the above analysis, we can see that the Huai'an water supply plant should adopt the general tax method, the value-added tax payable is -1.2 million, which not only do not have to pay tax in the current period, and the 1.2 million input tax amount can be set back, saving tax 1.26 million than simplified tax method.

2.5 The tax planning of concurrent business

The VAT law stipulates that a taxpayer who concurrently operates goods, taxable services at different tax rates shall account for the sales of taxable goods, services at different tax rates separately; if the sales are not accounted for separately, the tax rate shall be applied at a high level. If a taxpayer concurrently operates tax-exempt or tax-deductible projects, the sales amount of the tax-exempt or tax-deductible projects shall be accounted for separately. If the sales amount is not accounted for separately, no tax exemption or reduction shall be allowed. [12] Thus, if you want to avoid the high application of tax rates, you should separate accounting.

Case 4

Hualian Supermarket's sales in 2021 are 10 million, including 2 million in rice, flour, vegetable oil, and 1 million in vegetables. How should the design be designed to reduce the value-added tax burden of Hualian supermarket.

Option 1 is not accounted for separately

If it is not accounted for separately, all of the products will be subject to the high tax rate and will not enjoy the treatment of tax exemption and reduction. Then the output VAT payable = $10,000,000 \times 13\% = 1.3$ million yuan.

Option 2 is accounted for separately

If it is accounted for separately, then rice, flour and vegetable oil will be subject to a 9% tax rate, and vegetables will be exempt from tax. Then the output VAT payable = $(10,000,000 - 1,000,000 - 2,000,000) \times 13\% + 2,000,000 \times 9\% = 1.09$ million yuan.

According to the above analysis, Hualian supermarkets should be accounted for separately, thus saving 0.21 million yuan in VAT.

2.6 Making use of tax preference to plan

The Tax Law provides that from April 1, 2021 to December 31, 2022, if the total monthly sales amount of the small-scale taxpayers does not exceed 150,000 yuan (with a quarter as a tax payment period, the quarterly sales amount does not exceed 450,000 yuan), the value-added tax shall be exempted. Small-scale taxpayers who engage in taxable sales of value-added tax, with a total monthly sales amount exceeding 150,000 yuan, but not exceeding 150,000 yuan after deducting the sales

amount of real estate that occurs in the current period, sales of goods, services, services and intangible asset are exempt from VAT. [13] And from April 1, 2022 to December 31, 2022, small-scale VAT taxpayers will be exempt from VAT on taxable sales income at a leviable rate of 3 per cent. [14]

Therefore, we can make full use of this preferential policy of small-scale taxpayers, enjoy tax-free treatment. If the taxpayer's sales exceed 5 million, do not satisfy the status of a small-scale taxpayer, we can split it up to keep the annual sales within 5 million, and thus enjoy the tax-free treatment of small-scale taxpayers.

Case 5

Dahua Accounting Services Company, which includes bookkeeping and tax consulting services, expects the excluding taxes sales to be 10 million and input taxes of 20,000 yuan in 2022. How to plan to reduce the VAT burden of Dahua Accounting Services Company?

As Dahua's estimated sales of 10 million exceeds the standard of small-scale taxpayers and can only become an general taxpayer, therefore, should pay VAT = 10,000,000 × 6% - 20,000 = 580,000 yuan, but if we split Dahua into two separate accounting companies and tax consulting companies, each with sales of 5 million, according to the tax policy can enjoy tax-free policy, thus saving 580,000 VAT.

3. Conclusion

As one of the main taxes of small and micro-enterprises, the value-added tax has a direct impact on the cost and profit of the enterprise. This paper puts forward some methods and ideas of VAT planning for small and micro enterprises from the aspects of the choice of VAT taxpayer identity, the choice of suppliers, taxation basis, the way of tax calculation, tax preference and concurrent marketing behavior. But it is worth noting that the tax policy is changing, so as a financial staff, when doing tax planning work, we must pay close attention to the changes in the state's tax policy, especially some new tax preferential policies, and to actively communicate with the tax authorities to avoid the policy interpretation is not deep and caused by the misuse of tax policy, but also to improve their own business level, so that the design of tax planning is feasible. [15]

References

- [1] Haofang XU (2022). *Value-added Tax Planning and the Direction of Tax System Reform. Modern Marketing (business edition) (03): 28-30.*
- [2] Wenbo Yang (2022). *Small and Micro Enterprises Value-Added Tax and Income Tax Planning Ideas. China Storage & Transportation (03): 94-96.*
- [3] Ming Zhang (2021). *The Tax Planning Strategy of Enterprise Value-added Tax under the Current Tax System. Economic Outlook Around Bohai Sea (11): 150-152.*
- [4] Na Tian (2021). *Study on the Tax Planning of Enterprise Value-added Tax under the New Tax System. Taxes15 (27): 38-39.*
- [5] Yuehua Shen (2021). *Study on Optimization of Tax Planning of Enterprise Value-added Tax. Business Watch (27): 54-57.*
- [6] Wen Xie (2021). *Corporate Value-added Tax Planning Strategy under the New Tax System. China Business (12): 76-77.*
- [7] Fen Li (2021). *Study on the Enterprise Value-added Tax Planning Based on the Policy of Replacing Business with Value-added Tax. Enterprise Reform and Management (05): 135-136.*
- [8] Mingquan Xing (2021). *An Analysis of Tax Planning for Small and Micro Enterprises. National Circulation Economy (04): 180-182.*
- [9] Xian Zhao (2021). *A brief Analysis of the VAT Payment Plan for Small Enterprises. National Circulation Economy (04): 186-189.*
- [10] Hui Liu (2020). *On the Risks and Countermeasures of Tax Planning for Small and Micro Enterprises under the New Value-added Tax Policy. The Age of Wealth (11): 116-117.*
- [11] Hongjun Zhang (2020). *The Tax Planning of Small and Micro Enterprises Income Tax and Value-added Tax under*

the New Situation. Finance and Accounting (20): 66-68.

[12] Xiaoren Luo (2018). *Study on the Tax Planning of Small and Micro-enterprises' Value-added Tax after the Change from Business to Increment. Fujian Agriculture and Forestry University.*

[13] Yuanling Xu, Huali Li, Qin Xiang (2020). *A Probe into the VAT Tax Planning of Small and Micro Enterprises. Accountant (05): 79-80.*

[14] Yixiang Xu (2020). *On the Risks and Countermeasures of Tax Planning of Small and Micro Enterprises under the New Value-added Tax Policy. Taxe14 (03): 29-30.*

[15] Dan Wang (2020). *The Scientific Plan of VAT Payment for Small and Micro Enterprises under the Background of Business Reform. Assets and Finance in Administration (01): 54 -55.*