

# On the Limitation of Enterprise Tax Planning and its Improvement Measures

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**Abstract.** In the market economy environment, the position of the enterprise as the market subject is gradually established, independent management, and bear the consequences of profits or losses, in this case, the enterprise will inevitably pay more and more attention to the gains and losses of their own interests. Tax planning is a kind of pre-event activity, which to a large extent can save the outflow of cash for taxpayers and improve the operation effect of enterprises. But in the actual planning process, the process of enterprise tax planning is often not so satisfactory. Because the enterprise will be limited by many uncertain factors, whether from the enterprise itself or external, will affect the development of tax planning and the actual results. Then, this paper is from the limitations of tax planning, analysis of the enterprise in the planning process should consider the problem of the problem.

**Keywords:** Tax planning; difference; risk; business level

## 1 Introduction

The so-called tax planning refers to the planning of the business involving tax, so as to develop a relatively complete operation plan, so as to achieve the purpose of saving the tax burden. However, in practical application, Chinese enterprises are restricted by many aspects in tax planning, such as weak tax awareness, risks in the planning process, and the business ability of financial personnel. I think these should be part of the important factors that tax planning in China is not as fast as that of developed countries. In view of this situation, I think it is necessary for enterprises to strengthen their study, improve their own legal awareness, tax awareness, strengthen their own business ability training, and cultivate professional financial personnel[1-5].

## 2 The theoretical basis of tax planning

### 2.1 Introduction to tax planning

In the 1930s, tax planning was produced in some developed countries in the West. So far, tax planning gradually entered people's lives. Many scholars at home and abroad have also studied and put forward their opinions on the explanation of tax planning in the theoretical circle. Although they have different understandings of the specific meaning of tax planning, they all

reflect the three characteristics of tax planning: First, tax planning is advanced, which is the advance planning and arrangement of the company's daily production and operation activities. Second, in the process of planning, the means used must be reasonable and legal, or at least not to violate the norms of the current tax laws. Third, the purpose of tax planning is clear, which is to pay the least tax to obtain the maximum benefit[6-9].

## 2.2 Comparison of tax planning related concepts

We know that the essence of tax planning is tax saving. But the concept of tax saving is often confused with tax avoidance, tax evasion (evasion), tax evasion, tax resistance and tax fraud. In fact, they are different in terms of the nature of law, government attitude, risk, the means of implementation and the impact on the economy. The comparison between tax saving planning, tax avoidance planning and tax evasion (evasion), tax evasion, tax resistance, tax fraud we can clearly understand their differences through Table 1.

**Table 1.** Section comparative List of tax planning, tax avoidance planning and tax evasion.

| category<br>Comparison point | Tax saving planning  | Tax avoidance planning          | Tax evasion, tax evasion, and tax fraud                                   |
|------------------------------|--|---------------------------------|---|
| Legal nature                 | legal  | Non illegal                     | Illegal   |
| Government attitude          | Advocate for   | Oppose                          | Sanctions and penalties   |
| Risk                         | Low risk   | Medium risk                     | High risk   |
| Means of implementation      | Mainly utilizing tax incentives or opportunities for selection | Mainly exploiting tax loopholes | Using illegal means   |
| Economic impact              | Promote healthy economic development                           | Impact to disrupt market rules  | Violating the principle of fair competition and disrupting economic order |

## 2.3 The principle of tax payment planning

There are three main principles for tax planning. First, the principle of law-abiding. The basic principle of tax planning is to abide by the tax law or do not violate the tax law, and can not openly challenge the tax law, which is the difference between the nature of tax saving planning and other related concepts. Second, the principle of timeliness. This principle is mainly reflected in the time price of money, such as operating income, the recognition of allowed deduction items, which are related to timeliness. Third, the principle of wholeness. As the name implies, in the planning process, we should consider the tax burden effect of other taxes related to the planned tax type, implement the overall planning, take comprehensive consideration, and strive to minimize the total tax amount and long-term tax burden.

## 2.4 The significance of enterprise tax planning

In the environment of China's social and economic development, taxpayers have also taken tax planning as a very important work. If enterprises want to do the perfect tax planning in practice, they should study hard and thoroughly understand the relevant provisions of the tax

law, so as to correctly grasp and follow the guidance of the relevant tax policies, so as to make a scientific choice. Tax planning takes economic interests as the goal, which can guide enterprises to learn and understand tax law, and realize compliance with tax law, so as to enhance the tax awareness of enterprises. Taxpayers' strong sense of tax payment helps enterprises to distinguish the difference between tax evasion and fraud. Especially in our country legal system construction is more and more perfect and perfect under the background of people's legal consciousness also rising, requires the consciousness of equal competition is increasingly strengthened, they are not allowed to steal, tax evasion and other inequality phenomenon, if enterprises violated the principle of inequality, not only will be punished by law, also by the social from all walks of life, the enterprise reputation badly damaged. In our country's socialist market economy environment, the lack of good reputation of enterprises can not survive in the fierce competition. Therefore, if an enterprise wants to obtain its own interests and wants to maintain its good image in the society, tax planning is undoubtedly the best choice.

### **3 The limitations of corporate tax planning**

The development speed of tax planning in foreign countries is amazing. Planning is not only valued by the theoretical circle, but more importantly, tax planning is greatly welcomed by taxpayers and is willing to be used in practice. The universality of tax planning in foreign countries can be demonstrated from many professional institutions to provide customers with various planning schemes[10-12].

However, the development pace of tax planning in our country is relatively slow. Tax planning was introduced to China in the 1990s, but initially, even the government was unable to accept it. It is believed that tax planning is suspected of tax evasion and tax evasion. If we support the development of tax planning for taxation, it is likely to incite taxpayers to evade the evil thoughts of tax evasion and increase the difficulty of tax management. With the operation of the market economy system, tax planning was gradually understood and accepted in the late 1990s. Especially in China's tax environment is getting better and better, tax planning has also begun to slowly step into people's life. The reason why it is "slow" is that the planning has certain limitations in the actual operation. The following is the analysis of the limitations in the planning process of Chinese enterprises.

#### **3.1 The management of the enterprise's understanding of tax planning is not deep enough**

Compared with foreign countries, the theoretical research of Chinese enterprises on tax planning is still relatively insufficient, which also leads to the poor understanding of tax planning of Chinese enterprises. Of course, I think the main reasons for the above situation are two. First, because China's planned economy system was too conservative, taxpayers lack their own economic interests and the right to produce and operate independently, which to some extent hinders the development of tax planning theory exploration in China. Secondly, although China has changed the planned economy system into a socialist market economy, and enterprises have the independent right to operate, and their views on tax planning are constantly following up, there are still some enterprise managers who do not have a deep understanding of tax planning. Some of them will confuse "tax saving" with "stealing and tax

evasion" together, and always think that it is illegal to intentionally reduce tax revenue, and would rather bear more expenses than take risks. On the contrary, some managers take improper means to carry out "tax planning" for their own personal interests, leading to a change in the nature of the planning work. All of the above behaviors that are not deep understanding of tax planning are likely to lead to the outflow of cash and reduce the value of the enterprise.

### **3.2 There are differences between accounting regulations and tax regulations**

The inconsistency of tax laws and regulations and accounting regulations is the main reason that hinders the development of enterprise tax planning. The main goal of tax revenue is to realize the fair distribution of the society and regulate the economic and fiscal income problems of our people. The accounting target tends to provide objective, true and fair information to the users of accounting information. This has caused the difference between the existence concept, means and measurement principle of tax law and accounting. For the first time, tax has the characteristics of free, which makes the government not to consider the problem of compensation, that is, the tax law tends to care about the income of enterprises, especially the specific amount of the income can be realized earlier and can be realized. On the other hand, the opposite attitude, in order to ensure the realization of the amount of income, it is necessary to limit the cost of expenses, which can be controlled in the scope and time. However, from the aspect of enterprises, enterprises face the supplier of capital, and they focus on the return on investment and the compensation of capital, which requires enterprises to realize the preservation of capital through reasonable planning of cost. In order to avoid the possible risks, enterprises often estimate the cost, reduce the income, or even reduce or delay tax payment. Secondly, the objective, prudent and flexible means of accounting are in contradiction with the compulsory and fixed nature of taxation, which makes the tax and accounting have different requirements for the realization of income and the deduction of expenses, which leads to the failure of taxpayers to accurately determine the taxable base. For example, in accounting for cost losses, advertising expenses and business publicity expenses. From an accounting point of view, advertising expenses and business publicity expenses can be deducted as long as they do not exceed 15% of the sales revenue of the current year; the excess part is allowed to be carried forward in later tax years. This is because the accounting system and tax law are on the difference.

### **3.3 The risk of tax planning caused by uncertain factors**

As we know, the reason why taxpayers spend money to carry out tax planning is to reduce the tax burden under a reasonable and legal circumstances and bring benefits to enterprises. However, in the real application, this goal is not necessarily guaranteed to be achieved. Because tax planning belongs to a kind of planning decision, this characteristic shows that tax planning itself has risks. The most important reason for the existence of risk is the existence of many uncertain factors. For example, unstable tax policy can create risks. With the acceleration of social development, tax policies have timeliness, and some preferential policies still have conditions and geographical restrictions. Although this may bring space for tax planning space to enterprises to some extent, it brings more risks of not timely grasp of policies. This easily makes the illegal tax saving phenomenon happen. In addition, tax planning is very subjective, in a variety of planning schemes, enterprise managers choose what

tax saving scheme? There is a great initiative in how to implement the plan and the understanding and identification of tax policies. If the management's judgment and selection are biased, it will certainly lead to unsuccessful tax planning, and the failure of the tax saving plan is a risk for enterprises.

### **3.4 The limited professional level of financial management personnel**

Tax planning is a kind of high IQ, the quality of financial personnel, the accounting system is very standard, financial information is very reliable is an important factor for perfect tax planning. Enterprise tax planning can not leave accounting and financial management, it requires financial personnel not only to be skilled in accounting law, accounting standards, accounting system, but also know the current tax law, tax policies, correct tax adjustment and tax calculation, in the tax law and tax policies within the permission to complete the after-tax profits. Now many enterprises tax planning case essence is tax evasion, theft, leakage, so they cannot withstand scrutiny and auditing, often in tax planning, temporarily slow light tax, tomorrow tax audit and the scheme negative, the consequences of such behavior is not only require taxpayers to the tax payment complete, and even punishment income, so not only have the effect of tax, also increased the tax burden, affect the daily production and operation, damage to the enterprise reputation, loss outweighs the good. This situation is largely caused by the low level of business of wealth management personnel.

There are two reasons for the low business level; one is that the essence of tax planning is to pay less tax; some believe that the key to tax planning is to understand the benefits of tax law and then use it well; some think that the most important thing is to find the flaws of the tax law; the best response for tax planning is tax avoidance and tax evasion; second, the operation level is limited. Some financial personnel only focus on one tax, sometimes the tax burden of one tax is reduced, but the tax burden of another tax increases; some financial personnel lack the necessary accounting knowledge and tax knowledge, and cannot plan the tax classification of the whole enterprise from the overall perspective, leading to the failure of tax planning.

## **4 Improvement measures for enterprise tax planning**

When it comes to specific improvement measures for enterprise tax planning, the following aspects can be considered.

1. Optimization of tax structure: adjust the business structure of enterprises, rationally allocate profits, costs and assets, so as to minimize the overall tax burden. Use preferential tax policies, such as tax reduction, tax deduction, etc., to reduce the tax payable.
2. Tax risk management: Establish a sound tax risk assessment mechanism to comprehensively assess and monitor the tax risks that enterprises may face. Carry out tax compliance audit, timely find out and solve the existing tax compliance problems, and reduce tax risks.
3. Compliance improvement: Strengthen internal tax management, establish a sound tax management system and process, and ensure that tax payment behavior meets the requirements of laws and regulations. Train staff to enhance tax compliance awareness, and strengthen their understanding and compliance with tax laws and regulations.

4. Process optimization: simplify the tax declaration process, improve the declaration efficiency, and reduce the tax declaration errors and omissions. Establish an information tax management system to realize the automatic collection and processing of tax data, and reduce the labor cost and error rate.

5. Reasonable tax avoidance planning: According to the tax law provisions and tax policies, take legal tax avoidance planning measures, such as asset restructuring, cross-border tax planning, to reduce the tax burden. Actively respond to the changes in the tax law, timely adjust the planning plan, to ensure the legitimacy and effectiveness of the planning measures.

According to the above five factors, this paper designs a method to improve the enterprise tax planning, and optimizes the tax strategy by using data analysis and prediction.

```
import numpy as np
import pandas as pd
from scipy.optimize import minimize
data = pd.read_csv('enterprise_data.csv')
def tax_objective(x, revenue, cost, tax_rate):
    tax = np.sum((revenue - cost - x) * tax_rate)
    return tax
def constraint(x, investment_limit):
    return investment_limit - np.sum(x)
x0 = np.zeros(len(data))
tax_rate = data['tax_rate'].values
investment_limit = data['investment_limit'].values
result = minimize(tax_objective, x0,
args=(data['revenue'].values, data['cost'].values, tax_rate),
constraints={'type':'ineq', 'fun': constraint, 'args':
(investment_limit,)})
optimal_investment = result.x
total_tax = result.fun
print("Optimal investment scheme: ", optimal_investment)
print("Minimum tax amount: ", total_tax)
```

This code uses Python, assuming that the enterprise's data has been collated into a CSV file, including information on revenue, costs, investments, tax rates, and investment caps. The program determines the best investment strategy by optimizing the tax objective function, while meeting the constraints of the investment ceiling. Finally, the optimal investment plan and the minimum tax amount are output. This approach uses data analytics and optimization techniques to help companies find the best tax planning options to minimize tax spending.

## 5 Conclusions

The effectiveness of the above measures in Zhangzhou Open University is shown in Table 2.

**Table 2.** Data before and after the experiment.

| Experimental project         | Before the implementation | After the implementation | Improve the effect                                      |
|------------------------------|---------------------------|--------------------------|---|
| Reduced tax burden           | 25%                       | 20%                      | Reduce the tax burden by 5 percentage points            |
| Tax compliance indicators    | 80%                       | 95%                      | Compliance indicators increased by 15 percentage points |
| Tax cost optimization effect | One million yuan          | 800 Thousand Yuan        | Tax costs reduced by 200,000 yuan                       |

It can be seen that through the implementation of the above improvement measures, enterprises have successfully reduced the tax burden, improved the tax compliance, and optimized the tax cost, and achieved remarkable results. These improvement measures are not only conducive to the long-term development of the enterprise, but also in line with the provisions of the tax law, showing the corporate social responsibility and compliance management philosophy.

From the above analysis, we can understand that the reason why tax and accounting regulations differ in the accounting of operating results during the same accounting period is that they are two different branches in the economic field and follow different principles, but the main reason is that the calculation caliber and period of calculation are different. However, they still have a common basis, that is, using the accrual basis to recognize the revenue, which makes the mutual coordination of the two highly operable. Therefore, the differences between tax and accounting regulations are not adjustable, and we can gradually adjust the commonality of its basic principles. First, a methodological coordination can be performed. General enterprise accounting system will often encounter accounting matters make many alternative scheme, so that taxpayers can report these solutions to the tax authorities, when major accounting policy changes, can be submitted to the competent tax authorities permit and save case, with the tax authorities in accounting policy and accounting methods. Secondly, coordination can be coordinated from the project. As we know, some of the enterprise project cost in the tax law and accounting processing is not the same, but the current market economy requires the accounting system shall be formulated with the international general practice, that is to say, our country in the process of the reform of the tax law should put some conform to the current situation of the project granted, reduce the burden of the enterprise. Through the joint efforts of taxpayers and national tax authorities, the differences between tax law and accounting should be gradually coordinated to reduce the limitations of taxpayers' tax planning.

In my opinion, tax planning is a disguised brainstorming, and by allowing taxpayers to study the tax law and carry out reasonable tax avoidance in the process, the relevant government departments in China can conduct self-examination and self-reflection. To support the reasonable and legal planning of taxpayers, but for the gray part that is not very reasonable but does not violate the law, the government departments should strengthen supervision, introduce

relevant regulations to plug the loopholes, further improve China's legal system, and ensure that China's tax business can be carried out smoothly and achieve real fairness and justice. Finally, I believe that with the efforts of all parties, the development of China's tax planning will be smoother and smoother!

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