

Original Article

# Research on the Key Points of Tax Planning for Construction industry VAT Input Tax Amount

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**Abstract** - Based on the objective fact that many construction enterprises have a heavy burden on VAT due to insufficient input tax credit, after "Business Reform and increase" Now the study combines the current VAT legal system with systematized provisions of Business Reform Policy, adopts the idea of investigation, summaries, and deductive reasoning, establishes the guiding ideology and principle of VAT tax planning, discusses the five key points and methods of VAT tax planning for construction enterprises. And some ideas and proposals are put forward, referring to the use of supplier selection, labor dispatch, construction equipment sales back to rent, and so on.

**Keywords** - Construction enterprises; Value added tax; Input tax planning

## I. INTRODUCTION

With the implementation of the policy of "business reform and increase," problems of increase of VAT in many construction enterprises are highlighted, among which the most prominent is that it is difficult to achieve the deduction of input tax. In addition to a lack of financial personnel knowledge of value-added tax business and its application of operational skills, understanding, and implementation of the management reform policy, the most important reason is ignoring the tax planning of the income tax deduction determines the value-added tax to a certain extent. Therefore, the study of the construction enterprises (from now on referred to as "construction enterprises") value-added tax planning will guide the financial accounting personnel to carry out input tax-related business operations and has a practical significance.

## I. PLANNING PRINCIPLES OF VAT INPUT TAX IN CONSTRUCTION ENTERPRISES

Construction enterprises should follow the basic principles of legitimacy, economy, and technology of VAT tax planning. At the same time, they should combine their unique characteristics such as the purchase of goods, assets, and services and the need for VAT special ticket

support, establishing the three principles of financial guidance, departmental synergy, and leadership responsibility. Financial advice means that the financial institutions and relevant post personnel of the construction enterprise shall conscientiously formulate rules and regulations or documents concerning the conditions for deducting the income tax amount, send them to the relevant departments of the enterprise in time and hold financial work meetings, etc., Explaining and guiding the specific requirements of VAT ticket collection, asset allocation, supplier selection and other financial requirements; The coordination of departments means that the relevant departments of enterprises should respond positively and conscientiously implement the calls and instructions of financial departments, strictly comply with the financial requirements to carry out business and ask for relevant tickets; Leadership responsibility means that the leaders at all levels of the enterprise should require all economic businesses to take finance as the core, abided by financial regulations, handle major business and deal with important economic matters with financial and accounting opinions, understand accounting requirements and fulfill them seriously.

## II. KEY POINTS AND METHODS OF TAX PLANNING OF VAT IN CONSTRUCTION ENTERPRISES

### A. Set up a specialized tax management agency

The establishment of tax planning positions and the establishment of relevant personnel are the focus of HT's tax planning. The size of the tax administration organization and the professional ability and quality of relevant personnel are directly related to whether the VAT tax planning plan is scientific and feasible. With their unique forward-looking awareness, the managers actively set up positions specifically responsible for planning and recruiting a batch of competent and high-quality personnel, which laid a good foundation for the subsequent planning work.

HT company has a financial department and a tax department under the financial department. It has set up special tax-related jobs, which can specifically deal with



the company's tax planning and tax-related business. Due to the particularity of the industry, relevant regulatory policies are continually being introduced. Enterprises must adjust their planning concepts and plans in a timely manner according to policy guidance. The specialized tax management agency adds corresponding positions according to the business category, which can be more professional than the finance department in tax planning. Be able to devote more time to research the policies and principles of value-added tax collection, formulating clear and valid tax planning plans, and timely contacting tax planning experts, accepting expert suggestions and making timely changes, and regularly planning various business plans. Only by reporting and regulating the VAT tax planning process can the smooth implementation be guaranteed. The specialized tax management agency gives full play to the leadership role and urges various departments to cooperate to form the overall situation of the company's total active tax planning.

**B. Strengthen supplier file management, maintain input tax deduction chain**

In the current VAT planning system, whether the supplier invoice can be obtained and the income tax can be deducted or not directly affects the company cost. VAT is the extra value tax, and the city construction education is based on VAT, and the additional tax is still inside the value tax. The input tax can offset the urban construction education and the extra amount and then affect the profit and loss of the company. Therefore, when enterprises choose suppliers, it will fully consider whether the income tax can be offset and reasonable tax planning to maintain the value-added tax deduction chain.

**a) Tease suppliers and add tax information**

Teasing the present suppliers and supplementing the "list of qualified suppliers" and the "directory of qualified subcontractors" with information of suppliers who have not yet entered on the list, such as those who provide services, consulting, technical assistance, transportation, etc. At the same time, we can add the tax information registration column of suppliers to the list, clarifying the taxpayer identity of suppliers, including general or small-scale taxpayers of VAT, applicable tax rate, invoice type, and enjoy preferential policies and other information.

**b) Complete vendor information management**

The construction enterprise should request the supplier to provide the relevant information and certifications, mainly including three aspects: Basic information, such as supplier's name, type, registration address, contact person, telephone number, bank account number, and so on; Relevant tax information, such as taxpayer identity, industry, applicable tax rate or rate of levy, tax registration certificate number, general taxpayer identification number, etc. Relevant license information, including five certificates in one organizational code certificate and VAT general taxpayer qualifications, and so on.

**c) Establish a vendor information management repository and update maintenance regularly**

The construction enterprise should establish a comprehensive supply management information base, depending on the relevant information and license documents collected and updated. At the same time, enterprises should set up the supplier information management system to update and maintain supplier information regularly. By the information management of suppliers, it can effectively provide favorable conditions for VAT tax planning and make supplier analysis and selection more targeted.

**C. supplier selection based on quotation method.**

Since the pilot reform, both the real estate development industry and the construction industry need to change the trading habits of the past engineering materials only to ask the price not to ask the invoice, and whether the supplier can provide the VAT special ticket (hereinafter referred to as "VAT special ticket"), as the first choice of financial control. That is, under the same price, Enterprises that can issue VAT special tickets should be the suppliers of construction enterprises. In addition, there are two key considerations:

**a) Supplier type selection with the same tax quotation.**

First of all, we should choose suppliers with the right operating conditions and a high reputation. Tax price is the same, the same type of suppliers for the same material if you can provide invoice type and tax rate are the same, or the supplier's business condition, business reputation, and other factors, choose well-run reputable suppliers; Second, choose the supplier with high VAT rate. The tax rate is the same, and the supplier with a higher applicable tax rate, such as 11 percent of construction materials and a 17 percent tax rate, should choose the average taxpayer with 17 percent. In this way, it can reduce the enterprise's construction cost and increase the amount of input tax.

**b) Supplier selection with different tax quotations.**

In all kinds of suppliers offer different situations because no tax cost is different, additional input tax deduction directly influences included in the profits and losses of the VAT, city-building duty, and educational expenses to add the final impact on profits. Therefore, the purchaser can choose the supplier by measuring the price equilibrium between various suppliers.

Set output tax for the Y, its material suppliers of average taxpayer supplier A, small-scale taxpayer supplier B (To issue Special VAT invoice), and C (Not to issue Special VAT invoice). The tax quotations of the three suppliers are a, b and c, respectively.

Establish the quotation balance between the two suppliers when the comprehensive cost is equal:

The comprehensive cost of choice a = the comprehensive cost of choice b.

Comprehensive cost = non-tax quoted + (output tax - input tax) × value-added tax rate.

Bring the data into the balance equation.

$$A/(1+17\%)+[Y-A/(1+17\%)\times 17\%]\times 12\%=B/(1+3\%)+[Y-B/(1+3\%)\times 3\%]\times 12\%$$

Calculate the balance equation and obtain the purchase price balance.

The balance point is  $B/A = 86.55\%$ , That is: the tax price of the small-scale taxpayer is equal to 86.55% of the tax quoted price of the general taxpayer, and the comprehensive cost of the construction enterprise is equal. In the same way, it can measure the price equilibrium point between suppliers A and C, B, and C. According to this, the supplier selection scheme under different equilibrium points can be obtained, as shown in table 1

**Table 1. Supplier Selection Scheme for the Comprehensive Cost Balance when Different Prices are Quoted.**

Supplier and its invoice type.(Deductible tax rate)		Price balance point	Supplier selection scheme.
Supplier A	Supplier B	86.55%	Supplier B's price is quoted from supplier A's price <86.55%, select supplier B; Instead, select supplier A.
VAT special invoice(17%)	VAT special invoice(3%)		
Supplier A	Supplier C	83.73%	Supplier C's price is quoted from supplier A's price <86.55%, select supplier C; Instead, select supplier A.
VAT special invoice(17%)	VAT special invoice(0)		
Supplier B	Supplier C	96.74%	Supplier C's price is quoted from supplier B's price <86.55%, select supplier C; Instead, select supplier B.
VAT special invoice(17%)	VAT special invoice(0)		

When the construction enterprise chooses the supplier of materials, it can choose the supplier with the lowest comprehensive purchase cost according to the principle of table price equilibrium, so as to obtain a large after-tax profit.

For example, hongshun company buys raw material cement. It has three suppliers bidding on it, including General taxpayer supplier A and B, the price is 1.17 million yuan and 1.2 million yuan respectively, the small-scale taxpayer is C, the quotation is 1 million yuan, The price comparison method is as follows:

Comparison of A and B. They are all average taxpayers, and the applicable VAT rate is 17%, so compare A and B, hongshun company should choose the supplier whose price is relatively low, so the company of hongshun should choose A as a cement supplier.

Comparison of A and C. A is a general taxpayer. The applicable tax rate is 17%; C is a small-scale taxpayer, with a rate of 3%. C's tax-inclusive offer divided by A's tax-inclusive offer results in 85.47% (100/117) . According to table 1, we can see,85.47% is less than 86.55% of the equilibrium point.

As we can see from this, the firm has the lowest overall cost of choice of C suppliers, and the profit is greater.

**D. Use appropriate transport cost settlement mode**

The transportation costs involved in the procurement of materials and equipment for construction enterprises shall be subject to the applicable tax rate of 17%, and the

applicable tax rate of the current freight shall be 11% (further tax rate is expected to be reduced to 6%).In this way, whether the purchase price is included in the purchase price and invoiced is directly related to the difference of input tax deduction. Usually, transport cost settlement and invoicing have two modes: "one invoice system" and "two-invoice system."" One-invoice system" means that the seller shall settle and issue the VAT special invoice for the "delivery price" of the total amount of equipment, materials, and transport cost. "Two-invoice system" means that the seller shall settle the price of the sales equipment or materials and the transportation cost respectively, and separate the VAT first invoice and Special invoice for the transportation industry. In practice, the construction enterprises in the procurement of the general taxpayer of large equipment or bulk materials should be in accordance with the "delivered price" to negotiations, the "One-invoice system" of settlement, the input tax(17%-11%) can make the transportation cost more deducted 6%; if the purchase of small scale taxpayers, it should be according to "delivery price" transaction, transportation cost paid separately, by "two-invoice system" settlement, to ensure the normal transportation cost by 11% tax-deductible.

For example, Hong Shun held a procurement bidding for building cement, and two suppliers participated in the bidding. Among them, the general taxpayer supplier A and the small-scale taxpayer B were quoted price 2 million yuan without tax (including transportation costs of 200 thousand yuan). The same price conditions, companies should be chosen the general taxpayer but should pay attention to the transport cost settlement mode. If the transport cost settlement adopts the "one-invoice system",

the company can deduct the input tax by 29.06 million yuan  $[200 / (1+17%) \times 17\%]$ , and adopt the "two-invoice system", it can deduct the input tax 28.13 million yuan  $[180 / (1+17%) \times 17\% + 20 / (1+11%) \times 11\%]$ . The "one-invoice system" can deduct more than 0.93 million yuan (29.06-28.13), which is equivalent to saving the monthly salary of two employees.

#### ***E. Reasonably determine the transfer cost settlement target of Employment service mode***

In accordance with the provisions of the financial and tax [2016]36, the salary paid to the employees by the enterprises shall not be deducted from the amount of the input tax. The "liquidity" operating characteristic of the construction enterprise determines that the labor organization pattern is "matrix structure," and the use of labor is mostly "local materials," namely temporary recruitment and employment at the construction site. Generally, the labor cost in the construction cost is more than 30%, and the packet-term project will reach about 60%. The high payment of outsourcing labor cost is not deducted by input tax, make the enterprise is not willing. If taken in the construction site before communication with the labor service company, where the project is located, price book stand contract agreement, the construction enterprise to recruit the public, quantity, physical ability or skill requirements, salary, training expenses conditions clear agreement with a labor service company, after the start of the project by the labor service company dispatch. The construction enterprise directly handles the settlement of the labor service company and obtains the VAT special invoice. In this way, the construction companies are using temporary workers' compensation costs in employing way change into the External purchase of "modern" service spending, according to the labor service company can provide value-added tax-deductible VAT special invoice. It can be seen that how to recruit temporary workers has great knowledge, and how to operate does not affect the accounting of construction costs, but the VAT effect is very different.

Similarly, the construction enterprises of construction projects in the subcontract works should be avoided to the individual contractor but should contract or by labor dispatch company send professional and technical personnel to have electric plumbing such as engineering construction qualification professional construction and installation company, construction enterprises directly sent to professional construction and installation company or service company for settlement and invoice, ensure the input tax deduction eligibility. However, the non-artificial factor expenditure in subcontract works, including auxiliary materials and small equipment, should be maintained at the contract price of subcontracted works. In this way, the self-purchase of waterproof, thermal insulation, cable, lamps, and other related building accessories and special small machinery fees can get the purchase amount of 17% of the input tax deduction.

#### ***F. Putting invoice management in an important position***

It is particularly important for construction companies to control the details of bills. First of all, pay attention to the management of special value-added tax invoices, sort out the relevant business processes, and conduct comprehensive supervision on the acquisition of value-added tax invoices, relevant tax rate regulations, tax liability time control, and the inflow and outflow of relevant funds. Strictly check the standardization of invoices to ensure the smooth implementation of invoice management. In the implementation, pay attention to the relevant provisions of the consideration tax and the arrival of the bill, and other costs in the cooperation with the partner, notify the partner to issue an independent bill in time, and deduct it in time to avoid unnecessary tax burdens. Secondly, special attention should be paid to the format of the invoice for discount sales. The phenomenon that the sales amount and the discount amount are issued on the same invoice can not be deducted in the past. Most of them are because the financial staff mistakenly wrote the discount amount in the remarks column of the invoice so that the discount amount cannot be deducted from the sales amount. Subtract among them. Today, the company strictly regulates the format and other details and fills in the "discount" in the "Name of Goods, Labor Services, and Taxable Services" column of the value-added tax invoice. Provide timely training to financial personnel to ensure professionalism, strengthen their business capabilities, improve relevant personnel's understanding and judgment of value-added tax bills, and implement special personnel for invoices to avoid non-deductible items caused by the negligence of financial personnel. Third, in addition to a relatively complete internal management system and financial accounting system, a complete value-added tax accounting system and bill management charter must be established in accordance with the relevant VAT policies. In the actual purchase of sand, stone, steel, and other materials, try to obtain the special value-added tax invoice issued by the supplier in advance and obtain and save other deductible bills in a timely manner to improve the company's bill delivery efficiency and deduction efficiency.

#### ***G. Make good use of property leasing strategy***

##### ***a) The construction of leased equipment shall be deducted***

The construction site cannot exist without a bulldozer, excavator, crane, mixer, stone crusher, and other mechanical equipment, as well as the scaffold, carts, springboard facilities such as tools, many construction companies, have to purchase is complete by self. But cross-area construction project contract, these machines shipping will costs a lot, since the purchase of equipment leasing company established by the proposal, construction enterprise undertakes the construction business in the local time, the use of equipment leasing mode, can obtain the input tax deduction opportunities; cross-regional construction industry to the service contract, where the project construction equipment leasing companies lease equipment facilities and tools, can save transportation

handling costs, reduce equipment loss and damage risk of transportation facilities, can also obtain VAT invoices input tax deduction according to the leasing company.

**b) Expansion of construction equipment after the sale and lease expansion**

The construction enterprises can take the leaseback strategy of large-scale equipment. First, by the lower rate of the large equipment leasing company to sell and leaseback, get the input tax deduction. According to the "Notice of the State Administration of Taxation on the financing of customer service and leaseback sale of assets by the lessee in the relevant tax issues" (SARFT Notice No. [2010]13) regulations, financing customer service leaseback lessee to sell assets ownership of assets and all rewards and risks associated with the ownership of assets are not completely transferred, therefore does not belong to the collection of value-added tax range. That is to say,

the construction enterprises that sell assets do not have to pay VAT, but the renting of the assets of the leasing company shall be subject to the value-added tax. In this way, the construction enterprise can obtain the tax-deductible rights and interests as long as it requests the value-added tax of the rental or interest expenses.

For example, in July 2017, hongshun construction company transferred a batch of 40 million yuan of construction equipment to A leasing company, at the same time agree hong shun the company continues to use this batch of equipment, the two sides agreed to a term of four years, after the expiration of the equipment owned by the transferor.HongShun company, according to the 3-5 year bank infrastructure loans benchmark interest rate 2% to pay A "rent" (financing interest rate 9.38%), four years a total of 15 million yuan. Hong shun construction company can obtain input tax deduction interest, as shown in table 2.

**Table 2. Hongshun Construction Company Equipment Leaseback Input Tax Deduction Status**

ITEMS	Sum Of Money	Computation Of VAT
Transfer Fee	4000	No VAT
Rent payment by installment	4000	No input tax deduction
Payment of financing interest	1500	Deductible input tax
The Input Tax	217.95	$1500 \div 1.17 \times 0.17$

As shown in table 2, hongshunconstruction company has spent 15 million yuan on financing interest expenses in four years through the sale of large equipment. There is no preferential policy to pay interest if there is a method of financing, such as issuing securities and bank loans. Company is a clever use of large equipment after-sales leaseback pattern, loan procedures, such as not only a lot of deducting VAT on the purchase of also obtain 2.1795 million yuan, equivalent to 12.8205 million yuan, the actual pay interest financing interest at 8%, then the agreed interest rate saving of 1.38% (8%- 9.38%). This is the economic effect of input tax planning.

In a word, the tax-deductible is a big technical problem for the construction enterprises. It is suggested that construction enterprises hire tax consultants who have rich tax knowledge and excellent practical operation skills, carry out tax law knowledge popularization training for accountants and related business personnel, and help

accountants in enterprises to conduct tax and business counseling and tax planning guidance. At the same time, enterprises should recognize the value-added tax collection, supplier selection, transaction price setting, asset disposal, and management, etc., which are not decided by the accounting department. Therefore, the relevant departments such as purchase, operation, planning, asset management, and other related departments should cooperate in undertaking the tax planning responsibility of value-added tax jointly and actively.

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