

A brief analysis on the influence of preferential tax cut and fee reduction measures on the development of small and micro enterprises

Liu Shirui

International College of Zhengzhou University, Zhengzhou, Henan, 450000 China

Keywords: Tax cuts and fee reduction, Small and micro enterprises, burden relief for enterprises, stable employment

Abstract: Small and micro enterprises are the pillars of our national economy and the solid foundation for stable and continuous economic growth. However, the problems of difficulty in financing and pressure on taxes and fees facing the small and micro enterprises are severe. Measures taken for small and micro enterprises in tax reduction and fee reduction have multiple effects. As a result, the measures are taken with the purpose not only to relieve the burden of the enterprises, but also play an important role in expanding employment, promoting economic restructuring and fostering new growth driver and cultivating consumption demands.

1. Introduction

As the reform of opening up, the number of small and micro enterprises are increasing taking a great share in China, which have been the important pillar of China's economy and the solid foundation for stable and continuous economic growth. Small and micro enterprises include various small sized enterprises, micro enterprises, family-owned enterprises and individual business. In 2019, The State Council will further relax the standards for small and micro enterprises, with the following conditions: enterprise assets less than 50 million yuan, fewer than 300 employees, and taxable income less than 3 million yuan. The industry has expanded from agriculture, forestry, animal husbandry, fishery, industry, construction and wholesale to start-ups and technology start-ups in 2018.

With the rapid economic development of China, the numerous small and micro enterprise with various types are facing problems of financing difficulty ,high workforce cost and heavy burden in taxes and fees which has brought severe negative impact to the economic interests of small and micro enterprises, which is unfavorable to the smooth operation of small and micro enterprises. Against this background, the measure of tax cut and fee reduction was correspondingly come into being. To develop small and micro enterprises and relief burdens for small and micro enterprises are closely connected with the stable operation of social economy and stable employment, which was not only to relief burdens for enterprises, but also to serve as a positive driver to expand employment, promote economic restructuring, foster new driver and enhance consumption needs. On January 9, 2019, the executive meeting of the State Council decided to introduce new preferential tax reduction measures for small and micro businesses. The small and micro enterprises have embraced new opportunity for development. According to the statistics of the tax authorities, in combination with the preferential tax policies for small and micro businesses introduced and implemented in the early stage, from January to November 2018, the preferential tax policies to support the development of small and micro businesses totaled about 184 billion yuan. From May 1, 2018, the three measures to deepen VAT reform were implemented, with a total reduction of 298 billion yuan from May to October. Personal income tax reform was implemented in October with a tax cut of 31.6 billion yuan^[1].

2. The diversity of tax and fee reduction measures makes it easier and faster for small and micro businesses to pay taxes.

(1)Selectivity. In terms of VAT, given that a small-scale of tax payers whose sales amount

exceeds 100 thousand but does not exceed 300 thousand, the tax payers can be allowed the change of the way to make tax declaration by month and quarter once. (2)Adjustability. In the aspect of enterprise income tax, if the monthly prepayment enterprises meet the standards of small and low-profit enterprises in the middle of the year, they shall be uniformly adjusted to make quarterly prepayment declaration, which is conducive to reducing the times of taxpayers' declaration^[2].(3)Continuity. In terms of value-added tax, small-scale taxpayers who have used the VAT invoice management system to issue ordinary invoices can still use the existing tax control equipment to issue invoices after the tax exemption standard is improved, and they do not need to go through the payment and cancellation procedures.(4)Deductibility. In terms of local tax reduction, considering that the time of promulgation of the policy varies from place to place and the policy can be implemented back from January 1, eligible taxpayers who fail to timely declare the preferential tax reduction can apply for tax refund or deduction of the tax payable in the later tax period. At the same time, small-scale VAT taxpayers who have already enjoyed the original preferential local tax policies can further enjoy this preferential tax reduction policy, that is to say, the two types of policies can be superimposed.(5).The selectivity, adjustability, continuity, and deductibility combined together enable the procedure of tax paying of small and micro enterprises more convenient and faster, which improves the enthusiasm of tax paying enterprises.

3. Relax the standards for small enterprises with low profits and reduce the tax burden on small-scale taxpayers.

The state has substantially relaxed the standards for small, low-profit enterprises that can enjoy preferential corporate income tax. Enterprises with total assets less than 50 million yuan, less than 300 employees and taxable income less than 3 million yuan can enjoy preferential policies. The industry has expanded from agriculture, forestry, animal husbandry, fishery, industry, construction and wholesale to start-ups and technology start-ups in 2018. The expansion of policy standards has further expanded the coverage of preferential policies and highlighted the characteristics of preferential tax cut and fee reduction. At the same time, small-scale taxpayers including small and micro businesses, individual industrial and commercial households and other individuals will raise the VAT threshold from 30,000 yuan to 100,000 yuan in monthly sales^[3]. For instance, if the sales of company A in the quarter from January to March, 2018 is 200,000 yuan, then the VAT payable by company A in this quarter is $200,000 \text{ yuan} \div (1+3\%) \times 3\% = 5,825.24 \text{ yuan}$. When the monthly sales of VAT threshold is 30,000 yuan, the tax payable is 5,825.24 Yuan. Implemented on January 1, 2019, the threshold for monthly sales increased to 100,000 yuan. For example, if the sales of company A in the quarter from January to March, 2019 is 250,000 yuan, then the VAT payable by company A in this quarter is $250,000 \text{ yuan} \div (1+3\%) \times 3\% = 7281.55 \text{ yuan}$. However, due to the increase in monthly sales of the VAT threshold, and given the situation that there is no quarterly sales exceeding 300,000, so no VAT was paid in this quarter. At the same time, provincial (district, city) governments are allowed to reduce resource tax, urban maintenance and construction tax, stamp duty, urban land use tax, farmland occupation tax and other local taxes and educational surcharge and local education surcharge for small-scale taxpayers of value-added tax and the range of tax payable can be reduced within 50%. For example, since January 1, 2019 to December 31, 2021, Henan Province had issued the tax reduction measures with the deduction ranges within 50% in resource tax(excluding water resource tax), city maintenance and construction tax, property tax, tax on using urban land, stamp duty(excluding stamp duty on securities transactions), farmland occupation tax, educational surcharge and local education surcharge. This preferential policy can be enjoyed by 2.019 million small-scale VAT taxpayers in Henan province. Together with other preferential tax reduction policies for small and micro enterprises introduced by the central government this year, it is estimated that 98% of small and micro enterprises can be covered for their respective benefits [3]. Guided by practical, concise and feasible principles, the government directly raised the VAT threshold. According to the new policy, the tax burden of small and low-profit enterprises will be greatly reduced, which is bound to release more vitality to the market.

4. Increase the initiative for the development of science and technology start-ups.

On January 18th, 2019, the Ministry of Finance announced that the venture capital enterprises and angel investors can deduct taxable income by 70% of the investment for technology start-ups, which means that if the venture capital enterprises and angel individual investors invest the technology start-ups, 70% of the investment can be used to offset taxable income. Meanwhile, the scope of investment in start-ups of science and technology enterprises has been further extended to those with no more than 300 employees, total assets and annual sales income of no more than 50 million yuan^[4]. The deductivity and the decreasing of tax standards enable the venture capital enterprises and angel investors whose investment flows into the science & technology start-ups to be endowed with more preference in tax which drives such enterprises to plunge their funds into the R&D work. Besides, such kind of preferential policy can serve as entrepreneurial orientation to further enhance the high quality development, transformation and upgrading of China's economy in an innovative manner.

5. Decrease insurance expenses and effectively allocate enterprises 'funds.

In order to implement the policy of reducing taxes and fees, The State Council on April 1, 2019 issued a reduction in social insurance premium rates, which is an important measure to reduce the burden on enterprises, optimize the business environment and improve the social insurance system. Restrictions on insurance expenses are relaxed and the types of preferential taxes are increased, preferential policies for income tax are further backed. The payment rates of the pension insurance of the overwhelming majority of provinces are kept within 19%-20% by company. From May 1, 2019, the proportion of contributions from pension insurance companies will be lowered. If the proportion of contributions from pension insurance companies is higher than 16%, it will be lowered to 16%, which means that most provinces can reduce the proportion by 3 to 4 percentage points. For those currently below 16 per cent, transitional measures were proposed. We will continue to lower unemployment insurance and the deadline of industrial injury insurance rates will be on April 30, 2020. The accumulative balance of industrial injury insurance fund can be reduced in the corresponding months, lower 20% in the relative areas in 18-23 months and 50% exceeding 24 months^[5]. On the one hand, reducing the proportion of social security contributions will greatly reduce the burden of social security contributions on enterprises, significantly reduce the labor costs of enterprises, and increase the profits and production enthusiasm of small, medium and micro enterprises. On the other hand, it will help unify the social security contributions across the country and realize fair competition.

6. Actively push forward tax cut and fee reduction measures and continue to improve execution channels

In order to back the development of small and micro enterprises, government tax administrations should simplify the procedure for registry and review or to carry out the policy to streamline the procedure of small taxes. Furthermore, comprehensive levy and lower tax rates and even the integration of taxes can be used for burden relief. In order to make the preferential tax reduction and exemption policy for small and micro enterprises ready as soon as possible, the tax administrations should try as soon as possible to establish tax appeal and suggestion responding mechanism for small and micro enterprises.

In conclusion, the newly proposed tax cut and fee reduction policy will exert far-reaching influence to the development of small and micro enterprises. The preferential tax cut and fee reduction policy put forward by the central government in 2019 will certainly improve the efficiency of resource allocation in the market and effectively promote the development of small and micro businesses. Enterprises should be fully prepared, fully understand the policy dividend, calmly deal with the difficulties and risks in the implementation of the policy, refine the division of labor, enjoy new ways of tax incentives, and look for a win-win situation for enterprises and

individuals and a stable employment model for the masses.

References

- [1] Notice on the application of fee deduction and tax rate for individual income tax in the fourth quarter of 2018, finance and taxation No.98, [2018],p23-26
- [2] Faithful record of Press conference of the state administration of taxation in the first half of 2019, p106-107
- [3] Notice on the implementation of preferential tax reduction and exemption policy for small and micro enterprises, finance and taxation No.13, [2019]p17-21
- [4] Notice on the implementation of preferential tax reduction and exemption policy for small and micro enterprises, finance and taxation No.13, [2019]p48-51
- [5] Notice of The General Office of the State Council on printing and distributing a comprehensive plan to reduce social insurance premium rates, issue by the General Office of the State Council No. 13, [2019]p34-37