

# Tax Planning of Y City Construction Survey and Design Co., Ltd

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## ABSTRACT

In today's business landscape, tax planning has become a crucial strategy for enterprises, particularly construction companies, to enhance economic efficiency and competitiveness. This article explores effective tax planning approaches for construction firms to reduce financial burdens and expand profit margins. The discussion begins with defining the fundamental concepts and significance of tax planning. It then provides a detailed analysis of key tax categories including Value-Added Tax (VAT), corporate income tax, and individual income tax. Subsequent sections outline core strategies such as leveraging tax incentives, optimizing VAT deductions, and strategic capital allocation. Finally, the article emphasizes risk management and compliance considerations to ensure organizations achieve their tax planning objectives within legal frameworks. Therefore, construction enterprises should attach great importance to tax planning and deeply realize the importance of tax planning for enterprises to reduce costs and increase efficiency. According to the actual operation status of enterprises, they should scientifically formulate tax planning plans and adopt reasonable methods to save taxes for enterprises, so as to achieve cost saving and efficiency creation, and contribute to the long-term stable and healthy development of enterprises.

## KEYWORDS

Tax planning; Construction enterprises; Tax

## 1. COMPANY PROFILE

Established on April 29, 2011, Y City Construction Survey and Design Co., Ltd. is engaged in engineering survey and design, engineering management services, planning preparation, surveying and mapping services, geological exploration technical services, construction engineering consulting services.

Y City Architectural Survey and Design Co., Ltd. is a technology-driven subsidiary wholly acquired by China Railway 15th Bureau Group Co., Ltd. Approved by the Ministry of Construction, it holds multiple qualifications including Class A for construction projects, Class B for municipal works, as well as Class B certifications in engineering surveying, engineering mapping, and landscape architecture. With comprehensive expertise across diverse fields, the company boasts over 54 registered engineers and senior/mid-level professionals. Its full-service team covers planning, architecture, structural engineering, water supply/drainage systems, electrical design, HVAC, cost estimation, environmental design, and interior decoration. Each department head represents mid-career technical leaders with rich practical experience, enabling them to handle complex large-scale engineering projects.

For over 60 years since its establishment, the design company has adhered to the business philosophy of "Quality First, Reputation Foremost" and embraced the service principles of "Rigorousness,

Integrity, Excellence, and Innovation". Through dedicated research and innovative exploration, we have continuously refined our quality assurance system and enhanced design capabilities. The company has undertaken survey and design work for numerous representative construction projects in Yibin City and parts of Yunnan Province.

At present, Y City Construction Survey and Design Co., Ltd. is taking a new look, following the development strategy of "talent revitalization, science and technology revitalization, quality revitalization and reputation revitalization", based on the province, radiating to southwest China and facing the whole country, steadily advancing toward the goal of becoming a regional well-known design company with core competitiveness.

## **2. THE NECESSITY OF ENTERPRISE TAX PLANNING**

Optimize the allocation of enterprise resources: through tax planning, construction enterprises can optimize their own resource allocation according to the guidance of national tax policies and improve their competitiveness in the market.

Increase the economic benefits of enterprises: scientific tax planning can reduce the tax costs of enterprises, so as to increase the economic benefits of enterprises. Under the premise of legality, reasonable tax avoidance methods can reduce the tax burden of enterprises and improve the profitability of enterprises.

Enhancing Corporate Financial Management: Tax planning encompasses all aspects of corporate financial management. Through strategic tax planning, companies can improve their financial management capabilities. Well-structured tax planning standardizes financial processes and boosts operational efficiency [1]. Driving Sustainable Development: Construction enterprises can better adapt to evolving national tax policies and market dynamics through tax planning. Moreover, optimized management models developed via tax planning enhance core competitiveness, ultimately fostering sustainable business growth.

In short, it is very necessary for construction enterprises to carry out tax planning, which can not only reduce the tax cost of enterprises, but also improve the economic benefits and financial management level of enterprises, and promote the sustainable development of enterprises [2].

## **3. BASIC PRINCIPLES OF TAX PLANNING**

Legality principle: Tax planning must comply with national laws and regulations, and cannot violate tax law or evade tax obligations. Otherwise, once found out, it will face serious legal consequences.

Economic principle: the tax planning scheme should be able to save the tax expenditure of the enterprise and improve the economic benefit of the enterprise. At the same time, the implementation cost and risk of the scheme should also be considered to avoid other losses caused by excessive pursuit of tax saving.

Safety principle: Tax planning must take into account the risks and consequences that may be faced. It should not cause greater trouble or loss because of saving a little tax. It should avoid violating red lines or causing the attention and investigation of tax authorities.

Flexibility principle: Tax planning must be adjusted and updated with the changes of environment and policies, and cannot stick to a certain mode or method. It is necessary to flexibly use various planning means and techniques according to market changes, project progress, financial status and other factors to achieve the optimal tax results.

Collaboration Principle: Corporate leaders serve as the primary drivers of organizational development. They oversee business operations and drive corporate progress, acting as strategic pioneers. However,

constrained by time and energy limitations, they often struggle to master complex tax planning techniques, may miss updates on national tax regulations, and cannot personally engage in tax planning tasks. Therefore, leadership should coordinate with professional tax planners and internal departments to establish a dedicated team responsible for implementing operational tax strategies.

## **4. COMMON PROBLEMS AND COUNTERMEASURES IN CORPORATE TAX PLANNING**

### **4.1. Weak Accounting Basis**

Construction companies typically handle numerous projects across geographically dispersed locations nationwide. These projects often involve extended construction periods and may involve multiple concurrent projects or the same management team overseeing multiple projects. Associated indirect costs include employee salaries, labor expenses, office supplies, travel expenditures, and business hospitality fees. However, financial personnel face challenges in accounting due to relatively weak foundational knowledge, which may hinder clear operational strategies for accurate cost allocation across project sections or individual engineering works. Additionally, tax prepayments for out-of-area construction projects are prone to accounting errors. Some construction firms also fail to separate costs and expenses between projects, resulting in chaotic financial data that appears as a "mixed pot" of all project costs. This not only reduces the readability of financial reports but also complicates precise accounting and tax planning processes.

In general, due to the lack of accurate financial data and planning, the data of tax planning may lack accuracy and reliability, which may have a negative impact on the tax compliance and economic benefits of enterprises.

Construction enterprises must strictly comply with laws, regulations, and accounting standards when conducting project accounting. For projects located in different regions, companies should recognize related taxes based on the occurrence of tax obligations and issue cross-regional tax-related documents through prescribed procedures. Additionally, they must prepay taxes as required and ensure that accounting practices align with tax filing requirements. To guarantee the accuracy and reliability of tax planning, establishing a solid accounting foundation is essential. Only with robust accounting groundwork can enterprises provide accurate data support for subsequent tax planning. Therefore, laying a strong accounting foundation serves as the prerequisite for effective tax planning.

### **4.2. The Tax Planning System Is Not Perfect**

The development of tax planning work needs a sound tax system to guarantee. China's tax planning system has not been effectively improved, and there are certain risks in the tax planning work of enterprises. There are many uncertain factors in some areas of tax planning work, and related tax risks will also increase, which is not conducive to the long-term development of enterprises [3].

To ensure effective implementation of tax planning in construction projects, enterprises must establish a comprehensive tax planning system tailored to their specific circumstances. This system should provide clear guidance for tax planning personnel, ensuring they adhere to established rules and standards during operations. By strengthening internal management, companies can proactively identify potential risks in tax planning and implement corresponding measures. This approach helps maintain smooth progress of tax planning initiatives while minimizing unnecessary losses. The finance department should collaborate effectively with other departments and the tax planning team to integrate existing corporate resources. Rational resource allocation reduces waste and enhances economic efficiency. A well-designed tax planning system standardizes staff conduct, ensuring compliance with established regulations and benchmarks. This framework constrains improper

practices, guarantees steady implementation of tax planning strategies, and ultimately delivers greater economic benefits for enterprises.

### **4.3. The Comprehensive Quality of Tax Planning Staff Needs To Be Improved**

In corporate tax planning, tax professionals often lack both expertise and sufficient time to study new national regulations. This leads to conceptual misunderstandings about tax strategies, making it difficult for them to accurately assess the legality of tax planning activities. Tax planning frequently operates in a "gray area" within corporate operations, lacking clear legal guidance. To ensure precise judgment of tax planning's legality and legitimacy, professionals must possess high professional competence. Notably, China's current legal framework lacks specific provisions addressing the legality of tax planning activities. Compounded by complex tax regulations and insufficient legal education for planners, tax authorities demonstrate operational flexibility that introduces uncertainties in tax planning. These factors significantly impact the implementation and effectiveness of tax planning, with severe cases potentially constituting tax evasion or criminal offenses. Instead of reducing tax burdens, such actions increase business risks for enterprises.

Enterprises should strengthen training and education for their tax planning department staff, ensuring they fully grasp relevant legal regulations, acquire professional technical skills, deepen theoretical knowledge understanding, and develop strong communication abilities. This enables effective communication mechanisms with key tax authorities, allowing them to promptly comprehend policy implications and accurately identify legal boundaries in work processes. Such measures help prevent tax planning activities from being perceived as tax evasion or fraud.

## **5. ENTERPRISE TAX PLANNING**

### **5.1. Enterprise Income Tax Planning**

#### **5.1.1. Additional deduction for research and development expenses**

According to Announcement No.7: For enterprises that have actually incurred R&D expenses but failed to form intangible assets and thus recorded them as current period expenses, starting from January 1, 2023, they can claim a 100% additional pre-tax deduction based on actual expenditures. If such expenses form intangible assets, they shall be amortized at 200% of the asset's cost during the specified period. This means that construction companies that have not yet filed tax returns can establish R&D teams, initiate R&D projects, and develop new production technologies and construction materials. By treating salaries of R&D personnel, material consumption costs, and machinery rental expenses as R&D expenditures, these companies can meet R&D tax requirements and enjoy additional deductions. This strategy ultimately achieves the dual goals of reducing tax burdens and enhancing economic benefits.

#### **5.1.2. Apply for high-tech enterprise**

For a long time, construction companies have been mistakenly categorized as traditional manufacturing or labor-intensive enterprises rather than high-tech firms. This perception misrepresents conventional production methods. While some construction firms have indeed developed innovative techniques, advanced technologies, and new materials for projects like skyscraper construction, geographically challenging environments, artificial island development, underground infrastructure, eco-friendly buildings, and prefabricated component systems – all meeting high-tech enterprise criteria – the actual tax benefits are more substantial. According to Article 28 of China's Enterprise Income Tax Law, state-encouraged high-tech innovators qualify for a 15% corporate tax reduction. For construction firms certified as high-tech enterprises, this translates to a 30% tax cut from the original 25%, effectively saving over 40% in tax expenditures. Therefore,

construction companies that meet these criteria and obtain certification can fully leverage tax incentives, significantly boosting their economic efficiency.

### 5.1.3. Adjust the depreciation method of fixed assets

Construction enterprises, equipped with substantial construction machinery and fixed assets, can optimize tax savings through depreciation period adjustments. By extending or shortening depreciation periods, companies gain temporal flexibility to better manage tax expenditures. For large-scale firms, accelerated depreciation methods enable faster capital recovery and early recognition of depreciation costs. This approach enhances capital utilization efficiency while accelerating equipment upgrades and production capacity expansion. From a time value of capital perspective, different depreciation approaches significantly impact tax revenues. Therefore, construction enterprises should conduct thorough comparisons to select the most advantageous fixed asset depreciation method. Such strategic choices not only improve tax planning capabilities but also promote sustainable business development [4].

### 5.1.4. Make rational use of pre-tax deduction provisions for tax planning

With the continuous expansion of enterprise scale, expenses such as business entertainment expenses, advertising and publicity expenses, public welfare donations are also increasing. The purpose of tax planning and tax saving can be achieved by rationally using the pre-tax deduction regulations of relevant expense categories, standardizing accounting methods and reducing unnecessary tax expenditures.

## 5.2. Value-added Tax Planning

(1) Adopt the mode of multi-business integration, integrate transportation costs and labor costs directly into the material procurement contract. Adopt reasonable subcontracting methods to decompose it into labor contracts and material contracts according to business needs, so as to realize multiple input taxes for enterprises.

(2) For the actual monthly settlement amounts, we should issue subcontract invoices based on actual circumstances. This approach maximizes the time difference between sales and procurement, thereby evenly distributing project taxes. When settling and disbursing project payments to subcontractors, we must ensure the alignment of three key elements: collection, invoicing, and signing procedures. Achieving this "three flows" integration is crucial for tax deductions, reducing legal risks, and lowering corporate tax expenditure costs.

(3) Select the appropriate tax model in the "Material Supply Agreement" with the client. Whether adopting standard VAT collection or simplified collection, each method has its unique advantages that contractors must carefully evaluate. In material supply contracts, construction firms can choose between standard VAT or simplified VAT systems. The choice of tax model significantly impacts financial outcomes, so when drafting agreements, contractors should determine the applicable VAT model based on the proportion of material costs to total project expenses. This strategic approach helps minimize both the client's and contractor's VAT burdens.

(4) Plan the personal value-added tax paid for construction in different places. When calculating the available output invoices, select subcontracting invoices that can be deducted in different places, and try to obtain input invoices that can be used for deduction as far as possible to reduce value-added tax expenditure.

(5) Make full use of the national phased tax reduction and exemption policies, such as preferential tax rates and existing VAT rebate policies, and carry out the VAT incremental VAT rebate policy in parallel with the existing VAT rebate policy. On this basis, strengthen the study of tax policies to improve the efficiency of capital use, so as to create more profits for the development of enterprises.

## 6. OUTLOOK OF FUTURE TAX PLANNING FOR ENTERPRISES

**Enhancing Tax Planning Awareness:** As corporate competition intensifies and tax regulations become increasingly sophisticated, tax planning is becoming vital for construction enterprises. Companies must deepen their understanding of tax planning's significance and necessity, while strengthening professional training to improve staff expertise and operational capabilities.

**Staying informed about tax law changes and policy adjustments:** The essence of tax planning lies in legally compliant tax burden reduction. As regulatory shifts directly impact corporate tax strategies, construction companies must closely monitor evolving tax laws and policies. By promptly refining their tax planning approaches, they can effectively minimize compliance-related costs while maintaining legal compliance.

**Comprehensive application of tax planning strategies:** Tax planning encompasses various approaches including strategic use of tax incentives, optimized supply chain management, and prudent capital allocation. Construction enterprises can effectively implement these methods tailored to their specific circumstances, thereby achieving dual objectives of reducing tax burdens and enhancing economic efficiency.

**Enhancing Internal Management and Collaboration:** Tax planning requires close coordination among various departments within an enterprise, including finance, procurement, sales, and human resources. Construction companies should strengthen internal management and collaboration by establishing comprehensive tax management systems and procedures. This includes clearly defining each department's responsibilities and roles in tax planning processes to ensure smooth implementation of these initiatives.

**Consider leveraging external professional expertise:** Construction enterprises may consider engaging third-party professionals such as tax consulting firms and accounting firms to provide specialized tax planning advice and services. This approach can help companies effectively mitigate tax risks, reduce tax burden costs, and enhance economic efficiency.

## 7. SUMMARY

China's urbanization rate has now surpassed 65%, marking the entry into the "second half" of this transformative process. With infrastructure investment growth slowing, the economy is entering a new phase where enterprises face unprecedented challenges. Against this backdrop, organizations urgently need phased reforms to identify new profit growth drivers. As a pillar industry, the construction sector and its core enterprises must not only meticulously plan cost management but also prepare thoroughly for tax compliance. Tax planning serves dual purposes: it's both a critical strategy to mitigate risks and boost profits, and a vital measure for sustainable development through cost optimization. Therefore, construction companies must prioritize tax planning. Through scientific and rational strategies, businesses can effectively reduce tax burdens, enhance economic efficiency, and establish a solid foundation for long-term growth.

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