The Influence to the Construction Industry Brought by Replacing the Business Tax with VAT and Proper Recommended Analysis

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Abstract. Since reform and opening up, the economic development of China develops by leaps and bound. With the rapid development of urbanization and urban-rural integration, construction industry enters into a high-speed development period. Tax bearing is the focus attention of every industry and China comprehensively implemented value-added tax in 2016. In the period of transition from business tax to value-added tax, construction industry has been confronted with a series of tax issues. This thesis aims to simply analyze the influence to construction industry brought by replacing the business tax with value-added tax and put forward the corresponding suggestions under the background of transition from business tax to value-added tax.

1. Introduction

With continuous development of social and economic development of China, construction industry plays a positive role in economic development, and becomes the pillar of the economy in China. However, due to the deepening of tax reform, replacing the business tax with value-added tax is implemented in May, 2016. Plenty of enterprises suppose that this measure is to indirectly reduce the tax of enterprises. In fact, it does not reduce tax of enterprises. Because of the particularity of construction industry, labor cost and equipments and building material needed to buy lead to the complexity of the value-added tax in construction industry. What’s more, construction industry has to be confronted with the suffering that the tax reform brought under a number of circumstances. Replacing the business tax with value-added tax is the demand of social development, and it was driven by the irresistible trend, which cannot be changed. As for this aspect, construction industry should spare no effort to be accustomed to the development trend so as to find suitable transition strategy in the circumstance of replacing the business tax with value-added tax.

2. Influence to Construction Industry Brought by Replacing the Business Tax with Value-added Tax

2.1 Influence to tax from construction when replacing the business tax with value-added tax

Replacing the business tax with value-added tax poses direct influence to the tax of construction industry, because construction enterprises need to purchase a large number of building materials during the construction process, and building materials account large part of expenditure of building enterprises. Analyzing from the substantial aim of replacing the business tax with value-added tax, it aims to avoid paying tax repeatedly. However, the construction usually lasts for a longer period of time; enterprises need to purchase building materials and various categories of equipments, so construction enterprises need a lot of advanced suppliers of materials. Ultimately, the value-added tax invoice becomes a big problem that the construction enterprises have to face. In the earlier stage of construction, due to less purchase of construction materials, suppliers can easily get the invoice of the purchased materials. However, in the late period of construction, with the advance of the construction pace, the amount and complexity of using materials, diversified equipments will be
improved greatly, which endow complexity to input VAT and the acquirement of part of VAT special invoice. If lots of construction materials are seriously wasted, the cost of material will be indirectly improved and reduce the profit margin of construction enterprises. Under the system of market economy, the market price of building material varies. If enterprises are eager to control VAT under the condition of promising the quality of construction, they need to be more meticulous in considering buying materials.

At the same time, the problem of being without deduction by labor cost cannot bring trouble to replace the business tax with value-added tax as well. Labor subcontracting of construction mostly belongs to small-scale tax payers without deduction. However, the cost of labor accounts for a large portion in the construction costs, nearly 30%. Although a lot of output taxes are paid, the deduction of input tax is nearly close to zero. If not calculated into input VAT, there will be sharp increase in corporate tax. Even though the deduction is calculated into in out VAT, there will still be limited deductible input VAT for the difficulty of the acquirement of voucher of artificial input deduction.

2.2 Influence to cash flow of construction enterprises posed by replacing the business tax with value-added tax

Under the background of replacing the business tax with value-added tax, it will be a huge test for the cash flow of construction enterprises. Firstly, because of the waste of construction before replacing the business tax with value-added tax, directly improving input VAT will lead to the improvement of construction cost and influence the further development of construction industry and improve the pressure of cash flow in the late period of construction. Secondly, the cycle of the recovery of capital is generally longer, most construction cannot take the capital back for a long time. All these pose that construction enterprises need to pay not only the capital of the project in advance, but also the items that have not been taken back. If the project fund is not taken back in time, it will invisibly increase the capital expenditure. In addition, deferred payment of construction enterprises to upstream firms will lead to the failure of acquiring VAT special invoice issued by suppliers of materials, which will intensify the pressure of the circulating fund of enterprises, influence production and management of enterprises and lower the ability of enterprises in resisting market risks.

2.3 Influence to the internal management of construction enterprise posed by replacing the business tax with VAT

Replacing the business tax with value-added tax also poses great influence to the internal management of construction enterprises as well, especially the financial department. Due to the fact that replacing the business tax with value-added tax was popularized in 2016, many management system of business tax is not consistent with current accounting management, which makes the accounting treatment of construction industry complex and confusing. Therefore, enterprises are eager to change some management system in the past, including financial management system, project management system and basic system of enterprises. In addition, the coming of replacing the business tax with value-added tax make the situation of lacking professional VAT management talents in construction enterprises prominent. Because of the disorder of management, no one in the construction enterprises is familiar with the expenditure procedure under the VAT background, which will further lead to incompletion of collecting invoices, untimely deduction and so forth. It is difficult for construction industry to be confronted with the transition of replacing the business tax with value-added tax.

2.4 Replacing the business tax with VAT intensify the competition among construction enterprises

The coming of replacing the business tax with value-added tax brings lots of problems to construction industry. As been stated by the author, replacing the business tax with value-added tax will directly improve the cost of construction enterprises, which will make the competition among markets fiercer. Due to the improvement of the construction cost, the profit of construction enterprises is bound to decrease. The house price stays at a high level nowadays, so it is limited for
construction industry to improve the quoted price of construction. If the improvement of house price is bound to decrease the purchasing power, the decrease of purchase power will certainly leads to fiercer competition among construction enterprises.

3. Some Transitional Strategies for Construction Industry Under the Background of Replacing the Business Tax with Value-added Tax

3.1 Perfect the purchasing mode of materials; discreetly choose the source of labor employment

Because of the particularity of replacing the business tax with value-added tax, construction material manufacturing enterprises and construction industries need to pay tax when buying materials. Therefore, centralized purchasing and signing by negotiation can be adopted. Thereafter, when construction industry signs contract with suppliers, invoices are needed to be sent to turnkey company. This measure not only promises the stability of the price of construction materials, but also acquires the special invoice that can deduct VAT at the same time so as to relieve the tax pressure.

As for labor force, firstly, construction must be cautious in choosing the laboring service company and ask the VAT special invoice so as to lower the enterprise tax burden. Secondly, enterprises must optimize construction scheme to improve the ration of mechanization, lower the investing proportion of labor and further acquire the VAT invoice to deduct the input VAT. At last, construction enterprises need to fully take the advantages of government's preferential policies and further reduce the pressure brought by input tax.

3.2 Apply VAT flexibly

There is input VAT for construction industry in the aspect of purchasing equipments and materials; however, construction enterprises can flexibly apply the input VAT to balance the enterprise tax burden. Many enterprises do not have reasonable planning, and choosing earlier stage displacement. In order to reduce risks, construction enterprises can deduct by dividing input VAT into several stages, which will not lead to less tax in earlier stage, but more tax in the late stage of construction enterprises. However, it can stabilize every period of input tax, and reduce the VAT of every period of each enterprise. This measure endows the foreseeability of fiscal expenditure of tax; effectively reduce management risks of the financial management in the process of construction; stabilize cash flow, and strengthen the ability in shielding risks.

3.3 Strengthen the comprehensive quality of internal staff of construction industry

Although replacing the business tax with value-added tax brings a lot of influence to enterprises, the transitional period is inevitable. To be faster in going through and adapting to the influence brought by replacing the business tax with value-added tax, the construction enterprise need to strengthen related training on VAT, especially the financial department. Improving employments’ reorganization of replacing the business tax with value-added tax and the changing working style under the VAT can effectively accelerate the transitional period of replacing the business tax with value-added tax. Enterprises can choose to employ related talents at home and abroad, which not only quickly adapts to the influence brought by replacing the business tax with value-added tax, but also brings more resources for the internal training of enterprises.

3.4 Improve the technological level and the competitiveness

Any industry can be away from the technological support, and the competition among construction industries is not only the competition of price, but also the quality and construction technology. Replacing the business tax with value-added tax directly improve the cost of construction industry, while enterprises can reduce unnecessary waste on materials, omit the redundant details in construction so as to improve the competitiveness of enterprises and win a good reputation under the adversity.
3.5 Take a comprehensive consider on the price ratio on fixed-asset investment

The coming of replacing the business tax with value-added tax brings movable property and immovable property into the deductive range of the construction enterprises, and the fixed asset can deduct VAT and further encourage the investment passion of related enterprises, which will radically change the weak attitude of China’s market towards the fixed assets. Currently, there are two ways in investing fixed assets: leasing and outsourcing. They are complementary. Self buying acquires more after tax benefits than leasing with relatively higher investment and risk. On the contrary, leasing acquires less after-tax interest with balanced investment and relatively little risks. Attention needed to be paid on that the purchase of any fixed resources should combine the fixed attribute, preferential policy, bank lending rate and tax condition of the fixed asset. Finance and time have not been single factor that influence the fixed assets, but consider more tax policy and other conditions, which can promise proper fixed asset investment.

4. Summary

The implementation of replacing the business tax with value-added tax is the demand of social development; what’s more, it is the trend of tax reform in the reform of socialism with Chinese characteristics. Construction enterprises face many problems in the transitional period as an industry that is influenced most. At the same time, construction industry faces great challenges and embraces huge opportunities. Only by seizing the opportunity can one be accustomed to the development demand of the market and improve core competitiveness. All these require construction industry to perfect material purchasing mode, flexibly apply VAT, improve the comprehensive quality of the employees and technological construction level, and fully take the advantages of government’s preferential policy so as to overcome the influence brought by replacing the business tax with value-added tax.

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