The Impact of "BT Reforms to VAT" on Financial Management of Enterprises

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Abstract: The plan that BT (business tax) reforms to VAT (value added tax) is an important system of modern tax reform in China, and it is also a necessary measure under the current economic environment. As far as the financial management of enterprises is concerned, the plan that BT reforms to VAT has a very important impact on it. Enterprises must have a clear understanding of the operation and management of corporate finance under the new tax system, and be able to formulate targeted financial management system to adapt to the financial system of "BT reforms to VAT". The characteristics of VAT and BT were introduced in detail in this study, and the impact of "BT reforms to VAT" on various aspects of enterprise financial management was explained in detail, thus providing some reference suggestions for enterprise financial reform.

1. Introduction

The essence of taxation is the redistribution of social resources, which is related to all aspects of society, various industries and enterprises. Therefore, every reform of the tax system will arouse great concern of the whole society. Since 1994, the tax system has been reformed in China, a standardized production-oriented VAT has been initially established through the international practices, and the scope of VAT and BT has been defined. The two taxes are levied in parallel and do not overlap with each other, which plays a very important role in promoting national economic development, guaranteeing fiscal revenue and improving the level of public welfare [1]. With the change of economic growth mode in our country, the tertiary industry has developed rapidly, and the double taxation caused by BT and VAT has been more and more obvious, which has inhibited the development of the tertiary industry, and the change of BT to VAT has become an inevitable step in the reform of the national tax system.

2. Difference between VAT and BT and Necessity of BT Reforms to VAT

2.1. Value added tax

Value added tax (VAT) is a kind of tax levied on the basis of the value added in the value of goods or services, which is specifically defined in China as a turnover tax which calculates the sales volume of goods or taxable services and the amount of imported goods for units and individuals selling goods or providing processing and repairing services, as well as imported goods within the territory of China, and executes a tax deduction system.

Fig.1. Concept map of VAT
At present, VAT is a kind of turnover tax widely adopted and implemented in many countries in the world, and its popularity is inseparable from the natural advantages of its own design, which is a kind of innate excellent turnover tax, and mainly manifested in the following aspects: VAT has the characteristics of "neutrality", it only levies taxes on the value-added part of goods circulation or services, so it can effectively avoid repeated taxation, safeguard the environment of fair competition among taxpayers, and embody the principle of fair taxation [2]; VAT implements the collection mode of "no double taxation", this mode can maximize the integrity and relevance of the economic chain, and maintain the rationality, fairness and durability of government revenue, and the reasonable distribution of VAT collection links will not result in a part of the tax burden, which is conducive to mobilizing taxpayers' enthusiasm for production and promoting the stable development of the national economy [3]; VAT can be transferred, the so-called "transfer" of VAT is actually the deduction mechanism of VAT, which fully reflects the advantages of "neutrality", and there are three main factors affecting the "transfer" ability of VAT: the price, the scope of taxation, and the elasticity of supply and demand.

2.2. Business tax

Business tax (BT) is a kind of traditional turnover tax, which is defined in China as a commodity turnover tax levied on the basis of taxable services, transfer of intangible assets or sales of real estate in China. BT generally focuses on business activities, as long as taxpayers have business activities, they will be levied [4]. BT has the following characteristics: the scope of taxation is wide, because the scope of business tax collection in China includes the whole tertiary and secondary industries at present; taxation is based on turnover, which is simple and easy to implement, the taxable amount can be obtained by multiplying the turnover and the tax rate only when the taxable behavior occurs, and there is no need to consider the influencing factors, so the method is very simple; tax items and tax rates are determined by industry, tax items and tax rates can be managed differently, and different industries and behaviors can be calculated according to the relevant division [5]; BT is levied on the basis of the total turnover, as long as the taxable behavior occurs, whether or not the BT has been paid before, it needs to be levied on the basis of the total business income, so the situation of repeated levy is unavoidable.

2.3. Necessity of BT reforms to VAT

The reform of VAT and BT in China began in 1994 at the earliest, and the scope of VAT and BT was clearly divided according to the actual situation of China at that time: VAT includes the wholesale and retail of commodities in the secondary and tertiary industries besides the construction industry, as well as the processing, repair and distribution industries, while BT covers the vast majority of the tertiary industry, at the same time, the production-oriented VAT was established, and the basic framework of intergovernmental fiscal revenue at all levels was set up, this reform met the requirements of social development at that time [6]. However, with the rapid development of China's economy, the original scope of VAT and BT has been increasingly unable to meet the needs of the new situation, and the contradictions exposed have been also increasing. Therefore, the reform of the current tax distribution system has become an inevitable choice for our government.

Because BT is levied in full on the basis of turnover, it will inevitably result in repeated levy, which will increase the tax burden of enterprises and result in "differentiated treatment" of different industries' tax revenue, this is not conducive to market equity, the comprehensive development of various industries, and the participation of Chinese enterprises in international competition. At present, with the increasing degree of economic globalization, if Chinese enterprises want to remain invincible in an increasingly cruel environment, they must go abroad and enter the international market. However, the current tax-sharing system has seriously restricted the pace of enterprises. BT not only imposes double taxation on enterprises, but also fails to achieve zero tax rate of export tax rebate like VAT, thus, the products and services of enterprises in China can not be taxed according to the tax rate of the importing country, and the price is not competitive [7].
3. Impact of BT Reforms to VAT on Business Finance

3.1. Impact on assets and liabilities

One of the significant changes in the assets of enterprises after the implementation of "BT reforms to VAT" is that the book value has changed, and the reason is that BT is in-price tax and book value includes tax, while VAT is out-of-price tax and book value does not include tax, so it is necessary to separate the price tax into account. Specifically, the former book value includes BT, while the reformed book value is the value after VAT is deducted from the purchase and sale price, so the balance sheet is directly affected [8]. From the point of view of assets, the fixed assets and all kinds of materials purchased by enterprises need to deduct the VAT amount from the original purchase price after the implementation of "BT reforms to VAT", that is to say, the book value of assets is lower than the book value before the implementation of "BT reforms to VAT", and the VAT paid is included in the account of taxable fees as the amount of input tax, so the net value of fixed assets will naturally decrease, and the corresponding accumulated depreciation will also decrease. If the enterprise needs to purchase various fixed assets such as materials and machinery on a large scale, the fixed assets items in the balance sheet will be greatly affected. From the point of view of liabilities, when an enterprise purchases machinery and equipment and various materials, if it is unable to obtain a special VAT invoice, the enterprise will generally retain the debt relationship between purchase and sale, and the total liabilities will increase accordingly. After the implementation of "BT reforms to VAT", enterprises can buy qualified fixed assets to offset VAT and reduce tax burden, which directly stimulates enterprises to increase capital investment in fixed assets, and further stimulates enterprise loans [9]. At the same time, with the increase of loans, the interest on loans also increases, and the interest on loans cannot be deducted by VAT, which greatly increases the debt of enterprises, and again promotes the change of the balance sheet related data of enterprises.

3.2. Impact on profit level

One of the most important indicators to measure the performance of an enterprise is its profit. With the implementation of "BT reforms to VAT", BT and additional items no longer need to be accounted for, and BT and additional items are reduced immediately, which increases the profits of enterprises in a disguised way. In addition, the profit level of enterprises is also affected by income and cost.

3.3. Impact on cash flow

"BT reforms to VAT" will increase the pressure of cash flow and reduce the amount of cash available for enterprises. In addition, the BT payment mode of enterprises is mainly withheld and paid by the construction units. After the "BT reforms to VAT", the construction units will no longer be able to adopt the former withholding mode, instead, the lower units will pay the BT on their own according to the current inspection schedule. The payment time of VAT is the day when the duty of paying tax occurs, and VAT must be paid in the current period. In this way, the cash flow that is not rich after the "BT reforms to VAT" will become more tense for the enterprises that often have defaults and advances, which is just like adding insult to injury.

3.4. Impact on tax burden

As far as the purpose of the policy of "BT reforms to VAT" in China is concerned, "BT reforms to VAT" aims to avoid the repetitive collection of tax as long as there is business income in the procurement and circulation links, reduce the tax burden of enterprises, promote enterprises to achieve structural tax reduction and standardize the tax links. Generally speaking, the cost of materials is very high in the total cost of enterprises. Since VAT generated by material purchasing can be deducted after "BT reforms to VAT", which directly affects the tax burden level of enterprises, so it is necessary to pay attention to and analyze the tax burden caused by material purchasing.
3.5. Impact on financial management level

The plan of "BT reforms to VAT" is a systematic project, it has a tremendous impact on the reform of enterprises and involves all aspects of enterprises, which not only affects accounting work, but also has a considerable impact on the level of financial management, mainly in invoice management, cost management and contract management.

Invoice management plays a very important role in the financial management process of an enterprise. Especially after the implementation of the policy of "BT reforms to VAT", whether an enterprise can deduct input tax and issue a conforming sales invoice according to the requirements of upstream enterprises and so on all depend on the control of VAT invoices, so it is necessary to strictly manage it, which puts forward high requirements for professional accounting level, and plays a positive role in the awareness of corporate public servants to ask for invoices and in the elimination of "false invoices".

Cost management is an important part of financial management, the plan that BT reforms to VAT also promotes its improvement and development. Based on the complex cost structure of enterprises, the "BT reforms to VAT" can effectively improve the cost management of enterprises, especially for the cost management of deductible input tax. After the reform, enterprise costs can be distinguished according to two different parts: costs that fall within the scope of VAT deduction and those that do not fall within the scope of VAT deduction. Within the scope of VAT deduction, it is also necessary to subdivide it into applicable tax rates and special invoices for VAT, and record the expenditure of each cost in detail. In this way, the cost management level of enterprises can be continuously improved, so that the VAT tax credit system can play an important role in enterprises.

The implementation of the policy of "BT reforms to VAT" will surely have a great impact on the financial affairs of enterprises, which not only can promote changes in the capital structure of enterprises, but also has an impact on their financial situation and cash flow. In short, with the start of "BT reforms to VAT", the tax burden of enterprises will be reduced; at the same time, the financial management level of enterprises will be further improved with the limitation of VAT invoice deduction, which can promote the enterprises to achieve considerable development.

4. Conclusion

The traditional business tax in China is levied in full according to the turnover of enterprises, this mode can not avoid the situation of repeated levy in the process of levying, which aggravates the tax burden of enterprises, and is not conducive to market equity. Thus, the plan that BT reforms to VAT has become an inevitable move of tax reform in our country. The impact of "BT reforms to VAT" on corporate finance is mainly reflected in the impact on assets and liabilities, profit level, cash flow, tax burden and financial management level. The implementation of "BT reforms to VAT" will have a huge impact on the financial of enterprises, and will also promote the changes in the capital structure of enterprises.

References


