

# The impact of replacing business tax with value-added tax on construction enterprises and corresponding measures

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**Abstract:** The so-called business tax to value-added tax reform refers to the transformation of business tax to value-added tax. Replacing business tax with value-added tax can avoid double taxation, reduce corporate tax costs, and promote the healthy development of the market. The article discusses the background of the implementation of the VAT reform, explores the positive and negative impacts it brings to construction enterprises, and finally proposes to address the VAT reform from three aspects: invoice management system, tax law awareness cultivation, and reasonable selection of enterprises.

**Keywords:** Business Tax to Value added Tax, Construction Enterprises, Impact Measures

## 1 Introduction

At present, China's taxation is based on two main lines: business tax and value-added tax, which often result in repeated taxation, which is not conducive to the development of the market. Since January 2012, China has carried out the reform of levying value-added tax on business departments in different regions, steps, and times, where conditions permit. The departments involved are the transportation industry, construction industry, cultural and sports industry, service industry, entertainment industry, and other nine major industries that previously implemented a 3% to 7% business tax. After two years of development, the reform of business tax to value-added tax has achieved practical results and also reduced the burden on enterprises. Construction enterprises are the main industries in China's nine major sectors, involving millions of construction companies. The implementation of the VAT reform has had both positive and negative impacts on these enterprises. In 2014, construction enterprises comprehensively implemented the reform of replacing business tax with value-added tax, implementing an 11% tax rate. Accounting personnel in enterprises should strengthen their knowledge in this area and

actively respond to changes.

## 2 The impact of replacing business tax with value-added tax on construction enterprises

### 2.1 Reduce the situation of duplicate taxes paid by subcontractors in construction projects

The bidding process for construction projects usually adopts a joint bidding approach. Mainly because the construction process is complex and involves multiple construction units or projects. Usually, it is the group company or qualified contractors who go to bid, and after winning the bid, they subcontract the project to different subsidiaries or outsourcing companies to undertake the construction tasks. However, the current business tax does not allow the contractor to pay construction tax on behalf of the subcontractor, and requires the subcontractor to voluntarily pay the tax based on the subcontract agreement. However, in the actual operation process, sometimes there is no contract signed between the contractor and the subcontractor, and the subcontractor cannot withhold the construction tax, resulting in two construction companies paying duplicate taxes. After replacing business tax with value-added tax in the construction industry, all construction enterprises will pay value-added tax



uniformly, and both contractors and subcontractors will be subject to overhead and input taxes. Each link will issue tax invoices to each other, and the two taxes will offset each other, making it impossible to pay duplicate taxes and more conducive to the management of bidding contracts. It is also easier to trace the joint relationship of construction contracts at a glance.

## **2.2 Enhance the enthusiasm of enterprises to increase research and development and participate in technological upgrades**

The proportion of fixed asset investment in the construction industry is relatively large. In order to improve the production capacity of construction, large construction enterprises need to constantly replace large mechanical equipment or purchase equipment with greater construction capacity. But these construction equipment have the characteristics of a large total quantity and high individual prices, and cannot be deducted from input tax in the era of business tax. Construction companies are unwilling to replace new equipment, which reduces their market competitiveness and does not take advantage of their production enthusiasm. After the reform of business tax to value-added tax, large machinery and equipment purchased by construction enterprises can be deducted from input tax, which accelerates the updating speed of enterprise equipment. On the other hand, the handling of intangible assets of enterprises, the input tax generated by construction enterprises when transferring patented technology is much lower than the business tax. After the implementation of the VAT reform, enterprises are willing to improve their research and development capabilities and participate in technological reforms. The input tax generated by technological transformation or research and development of new products and processes has brought vitality to enterprises, and at the same time, the technological competitiveness brought by technological reform to construction enterprises has brought fresh blood to them.

## **2.3 Increasing corporate cash flow can easily lead to financial constraints**

With the rapid development of the construction industry, the competitive pressure on construction companies is becoming increasingly evident. The Housing and Urban Rural Development Commission also lacks strict supervision over construction units and construction companies. In the actual operation process, construction enterprises are often in a weak position, and there is often an asymmetry between the progress of construction projects and the payment of construction project funds. After the replacement of business tax with value-added tax, construction companies can only receive project funds after the construction unit has inspected and priced them. But the construction unit has already issued the value-added tax and is waiting for the construction unit to conduct work inspection and valuation. If this time is too long, the construction enterprise will have the problem of not receiving the construction funds and having to advance the value-added tax. This naturally increases the operating cash flow of construction enterprises, and even leads to a situation of tight funds for construction enterprises.

## **3. Measures for Construction Enterprises to Address the Impact of Replacing Business Tax with Value added Tax**

In January 2012, after Shanghai implemented the reform of business tax to value-added tax, the burden on enterprises, the optimization of economic structure, and the increase in market activity were all very obvious. After the business reform, China's comprehensive national strength and market environment have also developed rapidly. The construction industry is a driving force behind China's reform and opening up, and has played an important role in market development over the past decade. After the implementation of the VAT reform in construction enterprises, it has brought both opportunities and challenges. Construction enterprises should fully recognize the situation and take corresponding measures to cope with this reform.

### **3.1 Enhance the awareness of value-added tax among all staff and strengthen the management of tax receipts**

All employees of construction enterprises should raise their awareness of value-added tax and integrate it throughout the entire process of economic activities; Strengthen tax invoice management, refine the quantity of tax invoices, control the invoicing time of tax invoices, and so on. All employees of construction enterprises need to consider value-added tax issues comprehensively in bidding, signing contracts, purchasing equipment, leasing large machinery and equipment, subcontracting engineering projects, project settlement, inspection and valuation. Be well versed in the content and details of increasing taxes, have a clear understanding of the deduction of value-added tax, whether input tax or output tax is superior, and strengthen the cultivation of value-added tax awareness.

### **3.2 Conduct tax law training and adjust bidding methods**

Our country's policy of replacing business tax with value-added tax is still in the pilot stage, and the pilot industries and policies are not yet perfect, with areas that need to be modified or improved. The State Administration of Taxation often provides relevant supplementary explanations or policy adjustments. Most construction companies are unclear or unclear about these policies or modifications. This requires construction companies to provide timely tax law training and adjust their bidding methods. Construction companies should provide training to all employees, especially finance, cost, and related management personnel, on the opportunities and challenges brought by the implementation of the VAT reform. They should promptly grasp the adjustment plan of the national VAT reform policy, adjust their work methods, and avoid discovering phenomena such as failure to win the bid or loss of value-added tax due to high or low quotations. This will prevent any impact on the company's profits, losses, or damage to its reputation.

### **3.3 Selecting high-quality construction enterprises to reduce unrecorded losses**

During the period of business tax, in order

to reduce the construction costs of enterprises; Construction companies are willing to engage in transactions with small or individual businesses with low business tax points. After the implementation of the VAT reform, on the contrary, these enterprises or individuals do not have the conditions for VAT deduction. In this case, high-quality construction enterprises should be selected to reduce their costs through tax deductions. Considering the phenomenon of delayed construction project payments by the construction unit, and taking into account the credit of the construction unit, it is reasonable to choose a construction unit with high qualifications and good credit to cooperate, reduce losses due to non payment, and comprehensively consider construction material products, labor defects, and the deducted value-added tax.

### **4 Conclusion**

In short, replacing business tax with value-added tax can reduce the occurrence of duplicate taxes in the subcontracting process of construction projects, facilitate the replacement of large machinery and equipment by construction enterprises, increase the vitality of independent research and development, and enhance the technological competitiveness of construction enterprises. Replacing business tax with value-added tax will also have a negative impact on the operating cash flow of enterprises. But overall, replacing business tax with value-added tax will bring more vitality to enterprises and optimize industrial structure. Accounting personnel should enhance their awareness of value-added tax deduction, improve the invoice management system, fully understand the benefits of tax reform for enterprises, and to avoid an increase in unrecorded cash flow, construction enterprises should choose subcontracting and construction enterprises reasonably. Reduce the losses of the enterprise through both self-management and external management.

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