



# Analysis of the Impact of Value-added Tax Reform on the Financial Cost Structure of Enterprises

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**Abstract:** The tax system is not only an important tool and means for the state to carry out macro-control, but also a way to directly participate in the distribution of corporate profits. The current tax system has the greatest impact on the development of enterprises, but the current production value-added tax system has seriously affected the market competitiveness of enterprises. After the transformation of value-added tax from production to consumption, the superior performance of this tax system is fully reflected, which not only improves the competitiveness of enterprises in the market economy environment, but also promotes the healthy and lasting development of China's economy. With the progress of the times, China's tax system has also made great progress. Among them, the consumption-based VAT has replaced the production-based VAT, which has brought great impetus to the development of the national economy and various enterprises. This paper analyzes the impact of VAT reform on corporate finance, hoping to bring some inspiration to the relevant departments.

**Keywords:** VAT reform; corporate finance; cost analysis

## 1. Introduction

China's current value-added tax using production-based value-added tax on the purchase of capital goods double taxation problem is not resolved, is a kind of incomplete value-added tax: is not conducive to export tax rebates, affecting the competitiveness of China's export products in the international market; the complete chain of the purchase deduction tax law has been broken to a certain extent, which brings contradictions to the collection and management of standardized value-added tax[1]. Due to the above reasons, China's current production-oriented VAT must be reformed. When calculating VAT, 'consumption' VAT allows all inputs purchased in the current period, including the input tax paid in the purchase of fixed assets, to be deducted at one time. To implement this type of value-added tax, the current value-added tax burden of enterprises with more investment in fixed assets in the current period is low, and the current value-added tax burden of enterprises with less investment in fixed assets is high. This kind of different tax burden for each taxpayer according to the amount of its investment is conducive to promoting the sustainable development of China's economy and fully embodies the superiority of value-added tax. However, the consumption-based value-added tax will reduce fiscal revenue due to the narrowing of the tax base, so the state has reformed the tax system. The value-added tax has changed from production to consumption, and the equipment investment has been included in the scope of value-added tax deduction, which has a significant impact on corporate investors, business operators and creditors[2].

## 2. Value-added tax from production to consumption background.

In 1994, China began to levy value-added tax. At that time, value-added tax was mainly aimed at production and processing enterprises, that is, production value-added tax. After the reform and opening up, China's market economy has flourished, and the production value-added tax revenue has increased rapidly in recent years, making the production value-added tax revenue account for an increasing proportion of the entire fiscal tax revenue, quickly becoming the largest tax in China's tax revenue[3].

Although the production value-added tax has increased China's fiscal revenue and promoted the development of many enterprises, it has also revealed many drawbacks. At the same time as China vigorously carries out the collection of production value-added tax, some economically developed western countries have begun to adopt the consumption-based value-added tax system. Compared with the production value-added tax, when foreign enterprises purchase production equipment, research and development of new products and other costs, their costs are not included in the value-added tax, which saves a lot of capital for the financial expenditure of enterprises[4]. The production value-added tax includes the early development of the company's products and the cost of production into the value-added tax. In a sense, it is an unscientific valuation method, which increases the financial burden of Chinese enterprises[5].

After China's successful accession to the World Trade Organization, the operation of economic globalization has been further intensified. The drawbacks of production value-added tax have led to many enterprises in China not having enough funds to develop and improve their products, services and management, resulting in insufficient competitiveness and a large number of enterprises have closed down. Therefore, in line with international standards, the realization of the transformation from production value-added tax to consumption value-added tax has become the primary task facing China since China's accession to the WTO. In 2009, China's relevant departments issued a notice on the collection of consumer value-added tax. Consumer value-added tax began to replace production value-added tax, which played a huge role in promoting China's economic development. It not only expanded the demand of domestic residents, but also reduced the financial burden of enterprises[6].

### **3. Connotation of VAT conversion**

In 2009, China began to implement consumption value-added tax instead of production value-added tax, mainly in the following aspects to make a new revision. In view of the small-scale small and medium-sized enterprises, China no longer sets the industrial and commercial tax rates for them, and uniformly locates the tax rate of 3 %; the tax exemption provisions for imported equipment needed for processing, assembly and compensation trade of incoming materials have been abolished; allow taxpayers to deduct the input tax on the purchase of fixed assets related to the technological upgrading of enterprises; reduced the standard of identification of general taxpayers. Extend the tax declaration period, re-defined as the current 15 days; further clarify the tax obligations, tax time, withholding place and tax rate of overseas taxpayers who are not in the country[7].

### **4. Effect of VAT transformation**

#### **4.1 The impact of VAT transformation on the net profit of enterprises**

For manufacturing enterprises, the items directly affected by VAT transformation are: VAT input tax allowed to be deducted, VAT payable, local urban construction tax payable and other additional tax base and tax amount, purchase taxable fixed asset valuation, product cost, income tax base and income tax amount. Therefore, the VAT transformation will bring an increase in profits to the enterprise, thereby increasing the income of investors[8].

#### **4.2 The impact of VAT transformation on commodity prices**

As an extra-price tax, value-added tax is an important part of commodity prices. The decrease of value-added tax burden directly reduces commodity prices. In general, price decline is an important factor to improve the competitiveness of commodities. After joining the WTO, the domestic and foreign form a unified market, after 2008 for the protection of the domestic market tariffs, import link of value-added tax and other measures will not be effective use, foreign high-quality goods will be directly competitive with China's enterprise goods. After the transformation of value-added tax into consumption-oriented, enterprises will further reduce commodity prices under competitive pressure, which will further aggravate deflation. Therefore, in the face of upcoming trade challenges, the transformation of value-added tax provides space for product price reduction and enhances the competitiveness of China's commodities[9].

#### **4.3 The impact of VAT transformation on the net cash flow of operating activities**

Under the current production-based VAT system, the input VAT of the company's purchase of fixed assets cannot be deducted, and the cost of fixed assets is included in the accounting, which is reflected in the cash flow statement as the cash outflow of the company's investment activities. Under the consumption-based VAT system, the input VAT for purchasing fixed assets can be deducted, and the company will flow less cash than under the current production-based VAT system. Relatively speaking, the company's cash flow will increase on the existing basis. There are two ways to deduct the input VAT of fixed assets under the consumption-based VAT system: one is a one-time deduction in the current period of purchase, and the other is a phased deduction within the years specified in the VAT regulations. From the point of view of the basic significance of the consumption-based value-added tax system, the value-added tax on the input of fixed assets should be deducted once in the current period of purchase. This one-time deduction method is most beneficial to the company. However, the purchase of fixed assets of enterprises is often a small batch of large amounts. The one-time deduction will cause a large fluctuation in the value-added tax income, and the value-added tax is the largest tax at present, which is not conducive to the stability of the government's finances. Therefore, the implementation rules of the future consumption-based value-added tax system are likely to adopt a flexible approach, requiring enterprises to deduct in installments within a certain period of time.

#### 4.4 VAT reform affects the financing decisions of enterprises

With the reform of value-added tax, the investment of enterprises is further increased, and the investment of enterprise equipment is inseparable from a large amount of financial support, which puts forward inevitable requirements for enterprises to carry out financing activities. For the development of the enterprise itself, it is necessary to make use of the funds that have been accumulated internally, and also to implement active financing activities externally, such as bank loans, issuing new shares, issuing bonds, etc., to ensure the adequacy of investment funds. In the process of financing, enterprises must combine the actual situation of their own development, comprehensively consider the ability to resist risks, and ensure that debt funds are within their own affordability. On the one hand, consider the return generated by investment in fixed assets, and compare the difference between financial expenses and depreciation expenses generated by expanding investment; on the other hand, the objective analysis of the enterprise 's own financial situation, profit level, etc., and ultimately determine the best debt interest rate, in order to enhance the efficiency of the use of corporate funds. For example, when the return on investment is higher than the debt ratio, the use of financial leverage principle, enterprises to raise debt funds, can effectively enhance the return on equity funds; if the return on investment is equal to the debt ratio, if we continue to raise debt funds, the return on equity funds will be reduced.

In addition, after the implementation of the value-added tax reform, the way of deducting the value-added tax of fixed assets has been adopted to reduce the fixed assets.

The cost reduces the depreciation cost included in the profit and loss, and increases the profit level of the enterprise and enhances the return on investment. When the debt ratio remains unchanged, enterprises can appropriately increase the proportion of debt funds in the financing structure to promote better development of enterprises.

#### 4.5 Value-added tax reform can improve enterprise accounting

In the operation and management of enterprises, the procurement of equipment, the capital investment in the early research and development of products and the related supporting facilities. The capital expenditure is the fixed asset cost input of the enterprise operation, and does not produce economic benefit appreciation. The traditional production-type value-added tax fully includes the purchase of enterprise equipment, the capital investment in the early stage of product research and development, and the capital expenditure of related supporting facilities into the value-added of economic benefits, and collects the production-type value-added tax, which actually increases the cost of fixed assets of the enterprise, and does not realize the tax on the real economic benefits of the product[10].

### 5. Conclusion

To sum up, the core task of the system reform is to create a fair competitive external environment for enterprises and enhance the competitiveness of enterprises. The reform of value-added tax focuses on stimulating the enthusiasm of enterprises to invest and improving the efficiency of enterprises. On the one hand, the current production-based value-added tax is transformed into consumption-based value-added tax, allowing enterprises to deduct the input tax contained in the new and equipment investment parts of the year, and improving the market competitiveness of enterprises. On the other hand, we should also consider expanding the coverage of value-added tax. From the perspective of the development trend of value-added tax in various countries in the world, gradually expanding the scope of value-added tax and levying value-added tax on all goods and services is the development direction of modern value-added tax.

Consumption VAT instead of production VAT is the inevitable trend of economic globalization. It is also the inevitable way to improve the financial management system of enterprises and the inevitable way to promote China 's economic development. The tax system is the leverage to regulate the market economy, and it is also an effective means of macro-control of China 's economy. By vigorously promoting the consumption-based value-added tax reform and creating a fair market competition environment, it has greatly improved the global market competitiveness of Chinese enterprises. It is helpful to improve the financial system of Chinese enterprises, accelerate the renewal of Chinese enterprises ' equipment, promote the research and development of Chinese enterprises ' products, and stimulate the enthusiasm of enterprises ' investment. At the same time, we should also be soberly aware that the implementation of consumption value-added tax reform, to create a fair and reasonable global market economy, our country, enterprises and people need to work together to actively cooperate in order to do this complex work.

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