

The Tax Planning for Corporate Income Tax under the Background of Tax Reduction and Fee Reduction

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Abstract: This paper systematically discusses the key elements of corporate income tax planning. It first introduces the broader context of tax reduction and fee cuts, as well as the background and importance of corporate income tax planning. The paper then details the contents of tax planning, including the use of tax incentives, multinational tax planning, optimizing profit structures, improving employee capabilities, optimizing financial systems, and profit optimization strategies. It also proposes a method combining tax planning and tax compliance planning, including overall planning, risk management, and regular adjustments. Finally, it looks ahead to future development trends. The research in this paper provides scientific and reasonable planning guidance for enterprises, helping them achieve the best results in tax management.

Keywords: Corporate Income Tax; Tax Planning; Tax Reduction and Fee Cuts

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1.Introduction

Corporate income tax planning, as an essential component of corporate financial management, is a key method for enterprises to achieve optimized tax management under the premise of legal compliance. It has a significant impact on the development and profitability of a business. This article aims to explore the key elements of corporate income tax planning, with a focus on analyzing the comprehensive application of tax planning and tax compliance planning. First, the concept and background of corporate income tax planning will be introduced, clarifying its importance and role in corporate financial management. Subsequently, the article will analyze the two aspects of corporate income tax planning and tax compliance planning, focusing on how reasonable tax and tax compliance planning can improve a company's profitability. In the comprehensive application section, methods and suggestions will be presented to achieve the best tax benefits and financial management objectives. Through this research, this paper can provide enterprises with scientific and reasonable planning guidance to help them achieve optimal results in tax management.

2.Relevant Regulations on Corporate Income Tax Reduction and Fee Cuts

In 2018, China promulgated the Corporate Income Tax Law of the People's Republic of China, and in 2019, the implementation regulations of the law were amended. Years of practice have shown that the adjustments made by the new law on corporate income, costs, and expenses align with the actual business development needs of Chinese enterprises. The law regulates corporate tax behavior and plays an important role in the fundamental, institutional, and normative improvement of corporate development and tax quality. The key contents of the new law and its supporting policies are as follows^[1].

2.1 Increase in Deduction Ratio for R&D Expenses

The Implementation Regulations of the Corporate Income Tax Law of the People's Republic of China in 2019 stipulated that R&D expenses of enterprises could be deducted by 50% of the expenses, with the capitalized portion to be amortized at 150% of the original value of intangible assets. This policy increases the pre-tax deduction amount for R&D activities, supporting enterprises' independent R&D efforts. In 2023, the deduction ratio was raised to 100% and 200%, further increasing the pre-tax deduction for R&D activities, enabling enterprises with independent R&D efforts to receive greater tax reductions^[2].

2.2 Unified Deduction Ratio for Employee Education Expenses

The policy stipulates that employee education expenses can be deducted based on the actual expenses, with the portion that does not exceed 8% of the total employee salaries for the year being deductible pre-tax. The portion exceeding 8% can be carried forward for deduction in future years. This regulation encourages enterprises to conduct employee education to enhance employees' work capabilities and standardizes the 8% deduction threshold, preventing companies from manipulating taxable income through employee education expenses and strengthening compliance management of tax-related behavior.

2.3 Regulation on External Donations and Deduction Ratios

According to the Implementation Regulations of the Corporate Income Tax Law, donations made by enterprises to external charitable causes, beyond the projects specified in the Public Welfare Donation Law of the People's Republic of China, can be recognized as public welfare donations if conducted through a social organization or above-county-level government-charity activities^[3]. The donation amount can be deducted pre-tax at a certain ratio. Furthermore, the regulations state that after making external donations, enterprises cannot participate in the distribution or management of the donated funds or materials in any form. The deductible portion of external donations is limited to 12% of the annual total profit, and the donations can include both the current year's donations and carry-forward amounts from previous years. These provisions further improve the regulations on external donations by enterprises and are of significant importance for standardizing enterprises' external donations and related tax planning behaviors.

2.4 Regulation on Tiered Preferential Tax Rates for Small and Micro Enterprises

For small and micro enterprises, the portion of annual revenue under 1 million yuan is subject to a tax base reduction of 25% and a reduced tax rate of 20%. Compared to general enterprises, a business with a revenue of 1 million yuan can save $100 \times 25\% - 100 \times 25\% \times 20\% = 20,000$ yuan in taxes. For small and micro enterprises with annual revenue between 1 million and 3 million yuan, the tax base is reduced by 50%, and the tax rate is reduced to 20%. For example, a business with a revenue of 1 million yuan can save $100\% \times 25\% - 100 \times 50\% \times 20\% = 15,000$ yuan in taxes compared to general enterprises.

3. The Importance and Value of Corporate Income Tax Compliance Planning

3.1 Gaining the Time Value of Funds

By engaging in tax planning, a company can defer the fulfillment of its tax obligations to a later time. This allows the company to reinvest the income tax payments into production or investment before the legally stipulated latest payment deadline, thereby accelerating the circulation of funds, improving the efficiency of fund utilization, and generating new profits. This is especially beneficial for businesses in highly competitive industries or those facing difficulties with cash flow. Through effective corporate income tax planning, businesses can gain the time value of funds, helping ease the pressure on cash turnover^[4].

3.2 Mitigating Tax-related Risks

Tax expenses account for a significant portion of a company's total expenses, so businesses seek ways to minimize tax liabilities to maintain their operational efficiency, sometimes even resorting to illegal practices such as tax evasion. However, tax planning allows businesses to reduce tax expenses within a legal framework, preventing the need to take risks and avoiding tax-related legal risks. One of the basic principles of tax planning is "pre-planning," meaning that tax laws are established in advance, followed by tax-related legal actions. Business economic activities take place first, and tax payments follow. This principle implies that companies must adjust their economic activities according to existing and known legal provisions, choosing the best tax payment plan to achieve optimal tax savings. By doing so, companies can avoid tax-related risks and operate within the law, achieving legal tax reduction.

3.3 Improving Financial Management Levels

Tax planning is a key component and an essential tool in modern corporate financial management. The development of tax planning strategies must be based on information from the company's business activities and financial accounting data. This means that to enhance the feasibility of tax planning strategies, financial managers must strengthen their learning. In addition to staying updated on changes in tax-related laws, financial managers should also improve communication with other departments, gaining insights into the company's strategic plans and departmental work schedules. The implementation of tax planning will help financial managers evolve into more versatile professionals, significantly contributing to the improvement of overall financial management.

4. Application of Tax Incentives in Tax Planning

4.1 Selection of Applicable Tax Incentives

First, businesses can plan their tax location. Companies may choose to register in regions with favorable tax rates, often referred to as "tax havens," to take advantage of these tax incentives. When selecting an appropriate tax location, businesses should consider factors such as local policies, raw material supply, and sales markets. For example, companies in the western regions or the Hainan Free Trade Port may benefit from a 15% tax rate. By registering subsidiaries in such tax haven areas, businesses can legally and compliantly enjoy tax incentives, thereby benefiting from tax planning. Additionally, businesses may focus on industry types. Companies can set up independent entities for projects in industries that receive policy support or are encouraged for development, ensuring the company meets the conditions to enjoy favorable tax rates. Businesses should consider the actual situation of their operations when selecting investment projects, evaluating projected revenue and returns to make informed industry choices. For instance, agriculture, forestry, animal husbandry, and fisheries enjoy certain tax reductions, while companies in software and integrated circuits may benefit from a 10% tax rate. For industries with separate business unit needs, a company can split itself into two or more new entities, applying lower tax rates for small and micro-enterprises or enabling certain new companies to qualify for high-tech enterprise status, which also enjoys lower tax rates. Furthermore, businesses can choose their company type. In practice, some companies collaborate with other firms to establish new investment entities. This investment entity can be set up as a limited partnership, which does not require annual corporate income tax payments, and investors only pay individual income tax when receiving dividends, thereby deferring taxes. Finally, tax planning related to investment organizational forms focuses on whether a subsidiary or a branch should be established. According to Chinese tax laws, subsidiaries must independently declare their corporate income tax, while branches' taxes are calculated and paid by the parent company.

4.2 Reasonable Arrangement of Financial Structure

Reasonably arranging the financial structure is a key aspect of tax planning. By optimizing asset and liability allocation, companies can maximize tax credits, reduce overall tax burdens, and improve economic efficiency. Companies can adjust their balance sheets to optimize their financial structure, as the balance sheet reflects the company's financial condition, including assets, liabilities, and owners' equity. Companies should consider increasing assets that meet tax policy requirements, such as research and development (R&D) equipment or environmentally friendly production equipment that meets tax deduction criteria. This helps companies enjoy tax reductions, reducing taxable amounts. A reasonable debt structure is also an essential part of financial optimization. By choosing appropriate debt instruments, companies can balance financing costs and tax obligations. Selecting loans that can be deducted as costs allows businesses to benefit from tax reductions while paying interest. A well-planned pre-tax profit distribution is another key aspect of optimizing financial structure. By using flexible profit distribution strategies, companies can arrange profits under the most favorable tax policies to minimize tax burdens, including reasonable dividend policies, retained earnings, and reinvestment considerations. Financial optimization should also consider risk management, avoiding excessive risk concentration in one area or project. A well-diversified asset allocation reduces risks and strengthens overall financial stability. When adjusting financial structures, companies should consider the dynamic changes in tax policies and regulations, which may change at any time. Thus, businesses need to stay informed about the latest tax policy updates and adapt their structures accordingly. During financial structure adjustments, companies must ensure compliance with relevant regulations to avoid legal liabilities^[5].

Cross-departmental collaboration is essential in this process, including close cooperation between finance, legal, and tax departments to ensure orderly and legally compliant adjustments.

4.3 Effective Utilization of Tax Reductions and Exemptions

Effectively utilizing tax reductions and exemptions is an important strategy in tax planning. Through careful timing and expenditure planning, businesses can minimize their tax liabilities and enhance financial flexibility. When tax reductions or exemptions are available, companies can spread their expenditures over time to maximize the use of these exemptions. By dividing the project execution and expenditure into different phases, businesses can ensure they fully utilize the tax reduction at each stage, avoiding the waste of exemptions due to large one-time expenditures. For companies with multiple projects, project-based expenditure allocation is a common strategy. By dividing expenditures across different projects, businesses can maximize tax reductions for each one. Detailed analysis of each project ensures that every one fully benefits from the respective tax exemption policies. Tax policies typically set deadlines for the validity of tax reductions, so companies must plan their spending to complete it within the exemption period, ensuring they can fully benefit from these policies. Companies can optimize spending schedules to focus on the most favorable periods, adjusting project execution and expenditure based on key tax policy timing to maximize advantages. While utilizing tax reductions, companies should also consider long-term sustainability, as some tax reduction policies offer greater benefits for long-term projects. In such cases, businesses can plan expenses over a longer period to benefit from extended reductions^[6].

4.4 Innovation and R&D Investment

Innovation and R&D investment play a crucial role in corporate tax planning, as many regions offer tax incentives to encourage such activities. By increasing R&D investments, companies not only qualify for tax credits on R&D expenses, reducing their tax burden, but also gain a competitive advantage in technological innovation. Many countries have enacted tax credits for R&D costs, allowing businesses to deduct certain expenses related to R&D activities such as personnel wages, laboratory equipment, and materials. These expenses can be deducted from taxable income, thereby reducing the actual tax amount. Some regions have introduced specific tax incentives for innovative enterprises, offering relaxed tax policies such as corporate income tax exemptions or VAT reductions to encourage more innovation and technological advancements. Additionally, some areas have implemented accelerated depreciation policies for R&D equipment, enabling businesses to deduct depreciation more quickly, thus reducing the taxable base and providing greater financial flexibility. Some regions have also set up technology incubators, offering tax incentives to businesses involved in R&D activities, lowering their tax burdens while benefiting from the resources and support provided by the incubator.

4.5 Reasonable Planning of Corporate Income

Reasonably planning corporate income is a key strategy in tax planning. By using flexible profit distribution strategies, companies can arrange profits under the most favorable tax policies to minimize tax burdens. When setting dividend policies, companies should consider the differences in tax policies. Depending on the tax environment, companies may sometimes opt for moderate dividends or choose to reinvest profits into the business or other suitable areas. In some regions, dividend income is taxed at lower rates, while in others, it may be subject to higher personal income tax rates. Therefore, businesses can adopt flexible dividend strategies based on regional differences to minimize individual shareholders' tax liabilities. Companies may also choose to retain some profits for reinvestment, particularly in areas like R&D, technological upgrades, and market expansion. Many regions offer tax incentives for reinvested expenses, such as R&D tax credits or accelerated depreciation for fixed assets. By planning reinvestment effectively, companies can both enhance their technological capabilities and market share while enjoying substantial tax benefits. Additionally, businesses can plan income distribution over time, as some regions offer different tax policies for profits earned during different periods. By arranging the timing of income distribution strategically, companies can lower their overall tax burden, which may involve delaying or accelerating certain revenues. Corporate ownership structures and shareholder combinations also affect tax planning, as different shareholder types may be subject to varying tax policies. Companies can adjust their ownership structure to attract suitable shareholders, securing the most favorable tax policies. For multinational enterprises, integrating global tax strategies is also critical, as they need to consider the tax policies of different countries or regions to optimize tax benefits worldwide. This can

affect decisions on dividend policies, reinvestment plans, and more in different regions.

5.Challenges and Future Outlook of Corporate Income Tax Planning

5.1 International Tax Compliance

With the increasing demands for international tax compliance, businesses are facing a more complex and stringent global tax environment. The details include: First, the rise in global compliance requirements. The international community is strengthening its supervision of cross-border tax activities, and businesses must comply more rigorously with international tax regulations to avoid international disputes caused by non-compliance. Second, the complexity of multinational tax planning has increased. Businesses need to be more cautious when developing multinational tax plans to ensure that they not only meet the legal requirements of various countries but also protect the tax interests of the company.

5.2 Digital Taxation

With the development of the digital economy, digital tax management has become a new challenge in corporate income tax planning. The details include:

First, the enhancement of data disclosure and financial transparency. Digital tax management requires companies to increase data disclosure and financial transparency, ensuring that tax authorities can more easily access and analyze the company's financial information. Second, automated tax processes. Companies must adapt to digital tax management systems to implement automated tax filing and reporting processes, improving efficiency and reducing the potential for errors.

5.3 Future Outlook

In the future, corporate income tax planning will undergo more changes and opportunities. The specific outlook includes: First, strengthening international cooperation. With the advancement of globalization, international tax rules may become more coordinated and cooperative, reducing the complexity and uncertainty that multinational companies may face. Second, technological innovation. Through technological innovations, businesses can better address the challenges of digital taxation, such as using blockchain technology to ensure the security and transparency of financial data. Third, in-depth research on the application of digital technology. In the wave of the digital economy, the application of digital technologies in corporate income tax planning and compliance management has become a focal point for researchers. In the future, cutting-edge technologies such as big data analysis, artificial intelligence, and blockchain will provide businesses with more accurate and efficient data support, risk assessment, and decision-making tools, helping companies gain a competitive edge in tax planning. Fourth, focusing on research of personalized and refined planning solutions. With the diversification of company size, industries, and business models, generic planning solutions are increasingly insufficient to meet the actual needs of businesses. Therefore, future research should focus more on developing personalized and refined planning solutions. By analyzing the unique situations and needs of businesses, tailored tax planning solutions can be created to minimize tax burdens while ensuring compliance, thus safeguarding the steady development of enterprises.

In conclusion, corporate income tax planning will face more severe and complex challenges in areas such as international compliance, digital management, and social responsibility in the future. However, technological innovation and international cooperation will also provide more opportunities. Businesses need to continuously adjust their planning strategies to adapt to the changing tax environment of the future.

6.Conclusion

In conclusion, through the exploration of the comprehensive application of tax planning and tax payment planning in corporate income tax planning, we have gained a deeper understanding of how to optimize corporate financial management in an ever-changing tax environment. In the face of future challenges and opportunities, businesses must closely monitor the increasing global compliance requirements and the development trends in digital tax management, continually adjusting and optimizing their planning strategies to address the complex tax environment. At the same time, we must fully recognize that tax planning is not only a means to reduce tax burdens but also an important safeguard for promoting the sustainable development of enterprises. Therefore, it is hoped that the research presented in this paper will provide practical guidance for businesses, helping them achieve greater development and success in a competitive market.

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Conflict of Interests

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