

Research on preferential tax policies for small and medium-sized enterprises

Changze Li

School of Finance, Taxation and Public Management, Tianjin University of Finance and Economics, 300221
Tianjin, China

Abstract. The survival and development of enterprises depend on the market. Small and medium-sized enterprises (SMEs) can often seize the market opportunities left by large enterprises. Therefore, small enterprises and medium-sized ones have a good ability to grasp the market. At the same time, changes in market demand require enterprises not only to provide reliable products and high-quality services, but also to enable SMEs to make timely adjustments to market changes. Small and medium-scale companies are able to do this because of their small scale and flexible operations. On the other hand, the flexible operation characteristics of small-scale and moderate-sized taxpayers can make up for the limitation of scale, financial and other resources. Adjust the direction of production in a timely manner as well as avoiding industry risks. From the perspective of tax policies for SMEs, this paper analyzes the implementation status of tax policies for SMEs in Tianjin based on the existing preferential tax policies and official questionnaires.

1 Introduction

1.1 Definition of SMEs

SMEs are entities that are established in accordance with the law within the boundaries of the People's Republic of China with relatively small number of employees and scale of operation, including moderate-sized companies, small companies and micro-companies [1]. The criteria for the classification of medium-scale companies, small companies and micro-companies shall be formulated by the department takes charge of the integrated administration of the promotion of small and medium-sized enterprises under the State Council in conjunction with the relevant departments of the State Council. Several evaluating indicators are analysed, such as number of employees, operation revenue, total resources, etc. And taking into account the characteristics of the

industry. Businesses can be created by one person or a small group of people with the help of other people's funds, usually with the assistance of others [2]. The scale of employment is not large. So, most of the operation is directly managed by the owner.

1.2 Criteria for defining SMEs

To encourage the growth of small and medium-scale companies. On February 19, 2003, the former State Economic and Trade Commission, the former State Development Planning Commission, the Ministry of Finance and the National Bureau of Statistics issued the Notice on Printing and Distributing the Interim Provisions on Standards for Small and Medium-sized Enterprises (China Economic and Trade Small and Medium-sized Enterprises [2003] No. 143, hereinafter referred to as the "Circular"). The criteria for SMEs in major industries are clearly defined. The formulation of this standard is

Corresponding author: 191070113@mail.sit.edu.cn

based on the classification of enterprises, the number of employees of enterprises, sales of enterprises, total assets of enterprises, etc. According to the relevant provisions of

the Circular, moderate-sized enterprises in different industries are identified in accordance with the following standards (Table 1.).

Table 1. Criteria for the recognition of small and medium-sized enterprises.

Classification of moderate-sized enterprises	quantity of workers (people)	Operating receipt (million yuan)	Assets (million yuan)
Industry	300 -2000	30-300	40-400
Construction	600-3000	30-300	40-400
Wholesale and retail trade	100-500	10-150	-
Wholesale industry	100-200	30-300	-
Transportation industry	500-3000	30-300	-
Accommodation and catering	400-800	30-150	-

Those below the scale of the above table are regarded as small businesses. The amount of existing small and moderate-scale corporates in China is more than 42 million, accounts for 99% of the total enterprises [3]. They are mainly distributed in the east and central of China, less in the east.

2 China's current preferential tax policies and the implementation

2.1 China's current beneficial tax policies for SMEs

The development of SMEs is subject to the external operating environment and internal management. The external business environment mainly includes the legal environment, market environment, financial environment, credit environment and social environment. Internal management, mainly including backward technology, low quality, low management level, poor product quality. As a macro policy, tax policy has an important impact on the development of SMEs. At present, tax policy has played an active role in supporting the development of small and medium-sized enterprises and promoting national economic growth.

On January 9, 2019, Premier Li Keqiang presided over the executive meeting of the State Council, which determined to launch another batch of inclusive policies to reduce tax burden for small and micro companies [4]. The first is to greatly alter the standards for small and

micro-profit taxpayers that can apply enterprise income tax incentives, and also increase the amount of income tax incentives. For the portion of the annual taxable income of small enterprises with small profits that is not better than 1 million yuan, 1 million yuan to 3 million yuan. The revenue will be cut down by 25% and 50% respectively, so that the tax burden will be reduced by 5% and 10%. The adjusted prior policies will provide benefits for above 95% of taxpayers, of which 98% are private business. Second, for small-scale taxpayers which mainly include small and micro firms, individual industrial and commercial companies and other individuals, the VAT threshold will be raised from 30,000 yuan to 100,000 yuan in sales volume per month. The third is to allow provincial (autonomous region, municipal) governments to reduce local taxes and education fee surcharges within 50% for small-scale value-added tax taxpayers. The fourth goal is to broaden the scope of preferential policies for investment in start-up science and technology corporations, so that there are more tax incentives for investment in such enterprises. Fifth, in order to make up for the gap in local financial resources caused by fee reductions yet fiscal and tax differences. The state revenue is going to augment overall transfer payments to local administrations. The above tax reduction policy is expected to reduce the burden of small-scale and micro businesses by approximately RMB 200 billion annually [5].

2.2 The implementation of preferential tax policies in China

According to Sohu Finance, in terms of fiscal preferences, 573.6 billion yuan was reduced in taxes in 2016. In 2017, RMB 918.6 billion of tax cuts were made, an increasing of 345 billion yuan over 2016. From January to May 2018, tax incentives to stimulate the development of small and moderate-sized enterprises were reduced by 94.3 billion yuan, an increase of 25%. Encourage high-tech enterprises to reduce taxes by 288.6 billion yuan, increased by 46% [6]. Tax incentives to support the construction of ecological civilization will reduce taxes by 53.6 billion yuan, an increase of 30%.

3 Implementation status of tax policy for SMEs in Tianjin

3.1 Enterprises' understanding channels of preferential tax policies are diverse

The Tianjin Taxation Bureau was responsible for designing the questionnaire, and the State Taxation Bureau of each county (district) with a relatively concentrated distribution of small and medium-sized corporates carried out the survey. A total of 552 valid

questionnaires were collected. According to the survey data, 27 of the 552 companies surveyed said that they were "very knowledgeable" about the preferential tax policies. 188 enterprises said they had "a good understanding" of the preferential tax policies, accounting for a total of 38.9%. 267 enterprises said that their understanding of tax incentives was "fair", accounting for 48.4%. 60 companies said they were "unaware" or "completely unaware" of the preferential tax policies, accounting for a total of 10.9%. This shows that most SMEs have a certain degree of understanding of tax incentives, but there is still room for further improvement. The channels for SMEs to understand tax policies are shown in the Table 2 below.

The Table 2 indicates that SMEs have a variety of channels to understand tax preferential policies, among which the top three are tax authority websites, tax authority publicity and counselling and tax administrators. Moreover, the main channel for solving problems is still the tax authorities when SMEs have questions about preferential tax policies. The most three popular ways for small and medium-sized corporates to resolve doubts are consulting tax administrators, consulting at the tax hall and consulting through the 12366-tax service hotline (see Table 3).

Table 2. Channels for SMEs to learn about tax incentives.

Channels	Frequency (pcs)	Frequency (%)
Tax authority website	320	58.0
Radio and television	114	20.7
Newspapers	100	18.1
Weibo, WeChat	69	12.5
Tax authority publicity	282	51.1
People in the same industry	43	7.8
Intermediaries such as law firms and consulting firms	55	10.0
Internet	57	10.3
Know when handle tax matters	91	16.5
Tax administrator	172	31.2

Another 10 companies did not respond to the question.

As this title is multiple-choice, the combined percentage of each option is greater than 100%.

Table 3. Channels for SMEs to solve difficult problems of preferential tax policies.

Channels for solving problems	Frequency (pcs)	Frequency (%)
Intermediaries such as law firms and consulting firms	159	28.8
Ask questions online	115	20.8
Consult through 12366	182	33.0
Consult tax administrator	401	72.6
Look up the information themselves	77	13.6
Visit the tax hall for advice	253	45.8
Consult a friend or expert	45	8.2
Not sure how to fix it	6	1.1
Other	6	1.1

3.2 Enterprises are highly satisfied with the implementation of preferential tax policies by tax authorities

According to the survey results of the 552 enterprises surveyed. 139 companies said, "very satisfied", accounting for 25.2%, and 251 companies said, "somewhat satisfied", accounting for 45.5%. In terms of the convenience of enjoying preferential tax policies, 341 enterprises said they were "very satisfied" and "somewhat satisfied", accounting for a total of 61.8%. This shows that most SMEs generally recognize the tax authorities' publicity and implementation of preferential tax policies. This is mainly due to the fact that the tax authorities attach great importance to the carrying out of beneficial tax policies for small-scale companies and medium-scale ones. And make full use of platforms and carriers such as TV, radio, websites, newspapers and periodicals, magazines, 12366 tax service hotline, tax service department, and people's letters. Through online interviews on websites, interviews on TV and radio, etc., the authorities are able to do a good job in publicizing preferential tax policies for small and medium-scale companies. The departments of the city's State Taxation Bureau, such as regulations, collection and management, payment and service, and information, worked together to perform their respective duties. They make every effort to implement the preferential tax policies for small firms and moderate-scale enterprises. According to the survey, 84.1%

of SMEs have received services from tax authorities to remind them to enjoy tax incentives through SMS, phone calls, door-to-door visits or other means.

3.3 Enterprises attach great importance to preferential tax policies. The type of preferential policies is relatively single

The current preferential tax policies implement the Generalized System of Preferences, and the policies are relatively single. However, the ever-changing business situation of small and medium-sized enterprises makes it difficult to implement some preferential tax policies [7]. The survey found that most small and medium-sized firms attach more importance to preferential tax policies. Among the 552 enterprises surveyed, 502 enterprises believed that it was necessary for the state to introduce separate preferential tax policies for small and medium-sized firms, accounting for 90.9%, and 495 enterprises said that they would actively strive to enjoy preferential tax policies, accounting for 89.7%. By investigating whether the SMEs have enjoyed relevant preferential tax policies in the past two years in order to analyze the practical application of preferential tax policies by enterprises. The statistics show that 295 enterprises said that they have enjoyed preferential tax policies, accounting for 53.4%. And the types of preferential tax policies they enjoy are shown in Table 4.

Table 4. Types of tax incentives applicable to SMEs.

Types of tax incentives	Frequency (pcs)	Frequency (%)
Low corporate income tax rate	128	43.4
Small and micro-profit enterprises will be levied enterprise income tax policy by halving	196	66.4

Failure to meet the VAT or sales tax threshold is exempt form VAT or sales tax	70	23.7
Depreciation of fixed assets accelerates	7	2.4
Eligible fixed assets are a one-time deduction before tax	2	0.7
50% additional deduction for R&D expenses	0	0
100% additional deduction for the employment wages of persons with disabilities	0	0
Preferential income tax for high-tech enterprises	0	0
Income tax exemption for eligible environmental protection, energy and water saving projects	0.3	0.3
Tax exemptions for projects engaged in agriculture, forestry, animal husbandry and fishery	8	2.7
Comprehensive utilization of resources deducts income tax exemptions	1	0.3
Other offers	7	2.4

It can be seen that among the small and medium-sized enterprises enjoying tax incentives, most of the preferential treatment enjoyed by enterprises mainly concentrates on three aspects: the low corporate income tax rate, the halving of enterprise income tax, and the exemption from value-added tax if the threshold is not reached. These are personalized tax incentives for small and medium-sized enterprise [8]. However, the number of enterprises enjoying other types of tax incentives is relatively small. Especially for 100% extra deduction for R&D expenses, 100% additional deduction for employment wages for placement of disabled persons and income tax incentives for high-tech enterprises. None of the companies surveyed were able to enjoy them. Taking the R&D expense super-deduction discount as an example. 14 of the 552 enterprises surveyed had invested in R&D expenses. But none of them had enjoyed the 100% discount on R&D expense extra deduction. The preferential tax policy is an important driving force for the

high-quality development of China's high-tech industries. It has given sufficient help at different stages of the development of high-tech enterprises. On the one hand, the preferential tax policy is mainly to guide high-tech enterprises to obtain more working capital during the expansion period and create a favorable foundation for enterprises to expand their scale. In the critical period of enterprise technology research and development to transform commercial results, the product has achieved profitability but has not been able to make up for the large amount of capital investment in the early stage. It is the time when preferential tax policies help high-tech enterprises break the shackles of capital flow that restrict their growth [9]. Therefore, the article further analyzes the reasons why there are still 257 enterprises do not enjoy tax incentives. The three main reasons are: not being eligible for tax incentives, the procedures for enjoying tax incentives are too cumbersome and not being aware of the tax incentives (see Table 5.).

Table 5. Reasons why SMEs do not benefit from tax incentives.

Types of tax incentives	Frequency (pcs)	Frequency (%)
Not being aware of this preferential policy	30	11.7
Not being eligible for tax incentives	107	41.6
The procedure for enjoying preferential policies is too cumbersome and voluntarily give up enjoying the preferential policies	41	16.0
Financial accounting is not sound	6	2.3
The preferential policy has little effect and has not been applied	19	7.4
other	42	16.3

Among the SMEs that did not enjoy the preferential tax policies, 41.6% of the enterprises did not meet the conditions for enjoying the preferential tax policies, which to a certain extent indicates that the threshold of the beneficial tax policies for small-sized and medium-scale firms is still relatively high. From the perspective of the procedures for enjoying preferential tax policies, although the tax authorities have simplified the relevant procedures as much as possible, such as changing the management of some preferential tax policies from approval to filing [10], 206 enterprises still believe that the convenience of enjoying preferential tax policies can be further improved. Of the 257 enterprises that did not benefit from the preferential tax policy, 41 voluntarily forwent the preferential treatment because the procedure for enjoying the tax incentive was too cumbersome.

4 Conclusion

The development of small-sized and medium-scale enterprises is inseparable from the support of the government. Making full use of beneficial policies on taxation to promote the development of SMEs has become an important strategy adopted by all countries in the world. Although China's preferential tax policies for small and moderate-sized tax providers are not perfect compared with foreign developed countries. However, with the increasing attention to small and medium-sized enterprises in China. It is believed that the advantageous tax policies for corporations can play a greater role in the future. In the process of business development, small enterprises and medium-sized ones should constantly understand the changing of national policies. So that SMEs are able to enjoy the preferential policies to reduce the tax burden and improve the economic benefits of enterprises.

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