

# The Tax System Design under the Inflation

## CONCEPTION DU SYSTÈME FISCAL SOUS L'INFLATION

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**Abstract:** Inflation is one of the most significant factors which should be considered in the company's tax design. In the text, the author introduces the influences of inflation on the tax burden of the company firstly, and then on the basis of discussing the problems which need to be paid attention to in the tax system design under the inflation, the author expatiates the tax system in detail, which includes the inventory valuation method taxation system design, cost sharing with the design of the tax system, depreciation calculation of the tax system design and sales income of tax system design.

**Key words:** Inflation, Tax System Design

**Résumé:** L'inflation est le facteur le plus significatif qui doit être considéré dans la conception d'impôt de la compagnie. Dans l'article présent, l'auteur introduit d'abord l'influence de l'inflation sur le fardeau fiscal de la compagnie, et puis, sur la base de la discussion des problèmes qui méritent l'attention dans la conception du système fiscal sous l'inflation, l'auteur expose en détail le système fiscal, qui comprend la conception du système de taxation par méthode d'évaluation d'inventaire, le partage des coûts avec la conception du système fiscal, le calcul de dépréciation de la conception du système fiscal et le revenu de ventes de la conception du système fiscal.

**Mots-Clés:** inflation, conception du système fiscal

### 1. INTRODUCTION

In the mid-19th century Italian tax experts has included the scope of business tax consulting, so it can be thought that the study of the tax planning began from late 1950s and it is beginning to show real beginning of the professional development trend. Since the 1970s, foreign tax planning works appeared continuously, and they were influential, on behalf of the British Longman Publishing Company's "the plan of trust and tax" and Dr. Newton and G. D. Bulongmeng's "enterprise encountered trouble Tax Planning ". Foreign tax planning has been a complete development; tax planning methods has been a systematic and specific system. Furthermore, the business applications of the tax planning theory in practice are very extensive. At present, there is not an academic theory of unification on the concept of tax planning. But different scholars elucidated it from different angles. For example, India's tax experts N-J-Yasashiwei promoted the idea in his book "personal investment and tax planning" ,that the taxpayers through tax planning has the right to take full

advantages of the tax laws and regulations, including the relief of all concessions, which enjoy the largest tax interest perspective; Netherlands international financial Literature Bureau (IBDF) prepared by the "international taxation terms" gave the definition : tax planning refers to the planning of the taxpayers' through business activities or personal business activities, to achieve the purpose of paying the minimum tax.

The study on theory of tax planning in China started late, and for a longer period has been regarded as "no-go zone." In China, due to academics' different understanding on the main existence of "planning", the concept of "planning" is different from one to another. A representative viewpoints: Fang noted that "Tax planning is the emerging modern interdisciplinary related to the study of law, economics and management in three areas of the tax, school tax, financial management, accounting and other disciplines knowledge... tax planning refers to the tax plan which can minimize satisfied tax revenue of taxpayers who can be formulated to minimize taxpayers' revenue investment, operation and other activities of the forms, methods and steps". Wang Zhaogao pointed that, tax planning is a kind of optimization, under the premise of

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the tax law, which is in a careful comparison of the tax law, the tax Minimum capital expenditures and maximizing the return on taxpayers' integrated program, which is involved in legal, financial, management, organization, transactions, and the overall economic behavior. In 1994, Raymond Tang was entitled to write "tax planning" and it was published by the China Financial Publishing House, which indicates that our tax planning theoretical study started out "restricted" as a new subject. Since 10 years, the concept of progressive tax planning sinks deep into the hearts of people. A number of scholars have published monographs to study the system of tax planning theory; "Chinese tax" also offered "planning weekly column entitled" in 2000 to discuss tax planning openly; In addition, the "Tax Planning Network" -- the first professional website on tax planning established by around 100 of the National Tax Office of the Liaison Office has been available for some time.

## **2. THE INFLUENCES OF INFLATION ON THE ENTERPRISES WITH TAX BURDEN**

With the rapid growth of Chinese economy, a very significant economic phenomena rises: real estate prices, stock prices for pork which is the last representative of the residents of the comprehensive prices of daily necessities, proclaim the arrival of inflation. In the context of inflation, only under permit ion of the law and under the premise of the tax law, through taxes designed , enterprises enjoy full protection of their legitimate rights while paying taxes and interests of preserving and increasing the value of assets, to maximize the after-tax interest and survive in a highly competitive market and develop and growth.

China consumer price index increases by 5.6% than that in the same period last year, marking the highest level in 10 years, the August consumer price index rose by 6.5%than that in the same period last year. That's a new record. Influence of inflation on enterprises is very significant, particularly in the tax. In the historical cost accounting principles, the direct impact on inflation is the result of false corporate investment income growth and the actual investment value in a devaluation of taxpayers under the current market price for not simple reproduction, the relative increase of the corporate tax burden.

"Survival of the fittest" is an important market economy rule. As enterprises on their own, independent legal entity accounting, economic behavior and economic interests are closely linked. Modern enterprises should reduce costs and get more revenue to avoid being eliminated. Reducing tax expenditures becomes an intrinsic requirement of achieving goals. Therefore, according to their own operating

characteristics, the taxpayers are able to find ways to use the tax law, under the premise of effective design of the tax system, and to reduce the tax burden equals to reduce business costs.

## **3. IN THE CONTEXT OF INFLATION, CORPORATE TAX SYSTEM SHOULD BE DESIGNED TO PAY ATTENTION TO THE FOLLOWING PROBLEMS**

Since the existences of inflation have adverse effects on corporate tax burden, we need to identify ways to remedy them, and so there appears taxation system design. When designing the tax system, enterprises should not be blindly operated, and should not conflict with the existing tax laws and regulations. The goal of designing tax is to reduce tax costs, and reduce the tax burden, but this goal can only be achieved in a legal manner, a reasonable premise, but also to be recognized by the tax authorities. If the design of the tax system is beyond the premise, it is likely to evolve into tax evasion, tax fraud and other violations. Tax system design objectives can not be confined to "tax savings" and ignore cost-effectiveness. If cost is more than the income, or earnings despite cost less than, but the net benefit plan on taxpayers not generate enough drive, which is obviously planning programs should give up. So, the program with the lightest tax burden of is not always the optimal tax planning program.

Generally speaking, the tax law, accounting, investment and other policies differ among countries .This is the same in different fields of the same tax laws and regulations, accounting systems in different industries, different parts. These differences require enterprise clearly know these concrete and complex legal terms, and a good grasp of the scale planning methods choice, or it will not only lose income tax planning, but also cause unnecessary financial penalties by the tax authorities for tax evasion because inappropriate choice of method may be the tax authorities for tax evasion. Therefore enterprises in the tax system designed to adhere to the following principles:

1<sup>st</sup>. Feasibility. In other words, taxpayer's objective conditions should be considered. Businesses, big and small, are under certain conditions for their survival and development. It can not be separated from the socio-political and economic environment, the actual planning work; both must be combined.

2<sup>nd</sup>. Effectiveness. That is to say, being the taxpayers of the transactions conducted by the tax planning, we must achieve the desired economic goals, while optimizing revenue, the tax savings. This requires policy makers with tax planning awareness of the day-to-day business activities and financial arrangements remain capable of judgment. In addition,

the principles also require effective tax planning by companies with the strategic objectives of matching not to plan to plan; when revenue targets and business purposes are in conflict, it should be chosen as the primary purpose of business, which would also be easily recognized by the tax authorities.

3<sup>rd</sup>. Operation. That is how to use policy, ways and means to facilitate planning for the success of the issue. It should be said that this is important in the planning; tax planning is the deepest and wildest of the issue and the most effective planning of the core issues. Overall, tax planning is the ultimate embodiment of the people in tax regulations, specific tax policy studies, master and flexible use.

#### **4. THE TAX SYSTEM DESIGN IN THE CONTEXT OF INFLATION**

The tax system is designed with a very specific and practical expertise, is the one involved in financial decision-making, accounting, investment and financing, production, management, and legal, and other fields of applied science.

The tax system should be designed according to the organizational forms and management of the different ways of different plans. Tax system design varied and it is flexible. In the context of inflation, enterprises can take the following measures to carry out the tax system design.

##### **4.1 Inventory valuation method taxation system design**

Inventory valuation methods of a number of different valuation methods produce different tax liability, thus enabling enterprises in the different tax burden. The inventory valuation method is selected by a business in a certain period of time (usually a year) should not arbitrarily change if changes to the board or management level (director), among others, the meeting approved, the local tax authorities and report filing, in the notes to the accounting statements of explanation. With inflation in the background, we should actively promote the first fight for a law to pricing.

Inventory valuations of the different ways that can lead to the end of the inventory value and cost of sales, thus the financial situation of enterprises, profit and loss and income tax have a greater impact. Enterprises in the use of stock options valuation methods of tax planning, it is necessary to consider the situation of enterprises and price fluctuation factors. With inflation in the background, first-out method used and promoted to pricing, can lower the costs of closing stock and the current cost of sales, income tax deductions, will be more conducive to enterprises to reduce the tax base,

reducing the tax burden, increasing the after-tax profits; The FIFO method will be used to increase corporate income tax the burden, and reduce the after-tax profits.

##### **4.2 Cost sharing in the design of the tax system**

Including the four main aspects: First, as much as possible for the cost of the standard deduction for the cost of expenditure limits, such as the hospitality business, trade unions and welfare benefit costs of the relief donations, should have accurate knowledge of their expenditure limit allowed for in full within a certain limit of expenditure. Second because reasonable and cost-sharing options, such as the large stocks, bonds issuance costs, advertising costs and so on would have an impact on current profits, the enterprises should consider its own cash flow and efficiency in the use of funds to choose specific circumstances. Thirdly, make full use of accounting Provision for impairment of assets and sound principles of corporate profits for the current planning, so that enterprises in a certain period of time and the lightest tax burden, such as inventory and Losses and damage should the timely identification of reasons and the loss is a normal part of the cost should be included in a timely manner. Fourthly, have occurred to timely write off the costs are recorded, can reasonably be expected in the cost of the loss should be used the way included withholding costs, reduce future annual assessed contributions to the appropriate expenditure costs, loss of amortization period.

##### **4.3 Depreciation calculation of the tax system design**

It refers to the life of fixed assets, in accordance with the methodology established by the corresponding depreciation of the assessment system. As an important part of costs (cost), depreciation has the function of "revenue lagging," Based on Chinese current accounting system, enterprises commonly use method of depreciation life of the average workload and the number of years of combined law and the double declining balance method, which uses a different method of calculating the depreciation of the depreciation in quantity, thus sharing the different costs of the production phase in the cost of fixed assets ,depreciation usually in pretax expenditure, it directly affects the level of corporate pre-tax profit level and the tax liability. Due to the depreciation of such credit, investors need to take full account of depreciation when making investment decisions. Because of this corporate depreciation method difference, it is possible for enterprises to provide tax planning.

When using the method of choice for depreciation tax planning we must consider the impact of taxation.

Depreciation is provided directly affect corporate profits and the level of severity of the tax burden. But different forms of income tax rate of depreciation will have different effects on the enterprise profit tax. Generally, the proportion of tax under the income tax if the rate is unchanged accelerated depreciation method of choice is more favorable to enterprises. This is due to accelerated depreciation method, the use of fixed assets in the early years of extracting more depreciation in the latter part of the year from the use of less depreciation; depreciation included in cost (cost) times the amount, making corporate tax extension to the tax shield effect.

As the product sales, the depreciation charges turn into currency funds which are accumulated by the currency depreciation fund formed by the value of fixed assets and used to compensate enterprises. But under the current accounting system, China's enterprises owned assets at historical cost accounting principles. So, if there is inflation, however, companies are at historical cost recovery of funds is the real purchasing power has been devalued, not by the current market price of replacement of fixed assets, the simple reproduction. However, in the presence of inflation circumstances, if enterprises use accelerated depreciation method, so that enterprises can accelerate the pace of investment recovery, the depreciation fund will compensate enterprises reproduction process in a timely manner, so as to create more wealth; At the same time, the enterprise can accelerate the depreciation rate, the advantage of the former the depreciation cost of more taxes to avoid blocking the amount to obtain the effect of delaying the tax for enterprises to obtain tax benefits.

#### 4.4 Tax system design of sales income

Sales are the important project in enterprise's profit report. Not only does it affect the formation of corporate profits, the payment of corporate income tax, but it is also a critical factor calculating enterprise value-added tax, sales tax and others. Not considering factors circumstances, a subsequent operation period is expected to have a fixed marginal tax rates, such as 17%

VAT taxpayers in general small-scale taxpayers 6% or 4% of the rate of levy enterprise income tax rate of 33% the proportion of taxpayers. Even in a business time, he has more than 1,000 Yuan of income; he usually will not mind the current period or the next taxable income of 1,000 Yuan this declaration. Because no matter in which period of declaration to declare the general taxpayers must pay 170 Yuan in taxes, the after-tax income of 830 Yuan, the income tax is the same reason. If, however, considering the time value of money, taxpayers choose a different view, the present value of tax liability will be different, and different means of settlement enterprise sales confirm that the time, but that does not pay the same period, therefore, taxpayers can choose the appropriate marketing strategy sales admission, as deferred revenue recognition, thereby defer tax obligations in time.

According to China's Provisional Regulations on VAT: enterprises are using pin, or received money from the loan documentation in the day confirmed sales; Enterprises using or incurred by the collection of receivables, the goods and collection procedures within the same day confirmed sales; Enterprise used on credit and staging receivables sell goods, the contractual date of the receivable sales confirmed the same day. Thus, by way on credit can be deferred or delayed sales achieve tax planning purposes.

## 5. CONCLUSIONS

Of course, the methods of tax system are far more than those above; we can not list them all. The vitality of the system design lies on that it is not a rigid term, rather, it has strong adaptability and economic situation determines the complexity of tax planning program. Therefore when planning tax, enterprises can not copy the rigid application that others practice, and can not stop at the fixed model, but should be base on objective conditions—person ,time ,place; concrete analysis of concrete situation, can help effectively carry out tax planning.

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