

## **Financial Analysis of Real Estate Enterprises**

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**Abstract:** The real estate industry is a typical capital-intensive industry with large investment, high risk and long cycle. In addition, the industry competition is becoming increasingly fierce, and the country's supervision of real estate enterprises is also relatively strict. The various stages of real estate enterprises are involved in complex taxes and large tax amounts. In order to achieve the goal of reducing tax burden and obtaining maximum income, it is necessary for enterprises to carry out tax planning. This paper analyzes the tax planning methods of real estate enterprises in the three stages of development and construction, sales and retention. Finally, it puts forward some suggestions to optimize the tax planning of real estate enterprises.

### **1. Introduction**

Since the comprehensive implementation of the policy of replacing the business tax with a value-added tax, the phenomenon of double taxation has been reduced, and the tax burden of various enterprises has also been reduced. However, due to the wide range of tax involved in real estate enterprises, many links and large amount, in order to reasonably and effectively reduce the tax burden of enterprises, it is necessary for enterprises to implement tax planning.

### **2. The Basic Theory of Tax Planning**

#### **2.1 The Concept of Tax Planning**

According to the views of different scholars, this paper holds that tax planning is the behaviour of tax personnel to plan the economic activities related to tax in order to reduce the tax payable and increase profits within the scope of legal provisions.

#### **2.2 Characteristics of Tax Planning**

Tax planning mainly has the following characteristics. The first is legality. Any tax planning plan made by an enterprise must be within the limits of tax laws and regulations. If the tax planning plan goes beyond the limits of laws and regulations, then such behaviour cannot be called tax planning and may turn into tax evasion. This characteristic is also the main difference between tax planning and tax evasion. Then, the tax planning plan should be made before the business operation, investment and other activities of the enterprise, only in this way can the tax planning be meaningful, to achieve the goal of tax saving, if the planning after the event, the tax planning cannot play the original effect. Secondly, the primary purpose of tax planning is to reduce the tax burden cost through a series of planning and analysis, and ultimately obtain higher returns. Finally, the tax planning of real estate enterprises is professional. The planning process is complex, there are many links, and it involves much professional knowledge content, so the design personnel must have a certain professional quality.

#### **2.3 Principles of Tax Planning**

The process of tax planning is complex and there are many influencing factors. In order to carry out tax planning scientifically, reasonably and effectively, enterprises should stick to the principles

when designing schemes. First of all, the principle of legality should be followed when designing the scheme. Tax planning must be operated within the scope of the provisions of China's tax law, if deviated from the legal track, then the behaviour of enterprises can be called tax planning, and may even evolve into tax evasion, tax evasion, therefore, whether legal is also the difference between tax planning and tax evasion marks. And then the ex-ante principle. The goal of tax planning is to reduce the tax burden for enterprises. Therefore, before the occurrence of enterprise economic activities, relevant personnel should analyze the possible economic exchanges, formulate planning plans, and achieve the goal of reducing the tax burden. It is benefit sex principle next. When the benefits of tax planning exceed the cost of implementation, the goal can be achieved. If the costs exceed the benefits, the project becomes meaningless. Tax planning is not an independent activity, the implementation of which requires enterprises to adjust the development strategy, business model and other internal conditions, if it is still difficult to operate after coordination, it indicates that the tax planning scheme is not operable.

## **2.4 Theoretical Basis of Tax Planning**

### **2.4.1 Tax Burden Theory**

The burden borne by taxpayers to take their duties of paying taxes is called tax burden. The level of tax burden can be expressed by the burden ratio, that is, the ratio of the tax payable to the taxpayer's income. It is impossible to determine the investment mode only by relying on the amount of tax payable, because the tax payable may increase but the burden rate is lower than that of the previous year. Therefore, in order to increase the income, the enterprise should choose to continue to expand sales in this case.

### **2.4.2 Contract Theory**

Contract theory refers to the contractual relationship between the taxpayer and the government as the two sides of the tax relationship. There may be conflicts between tax collectors and taxpayers due to their different purposes. As the tax collector, the government wants to collect as much tax as possible, because it can increase government revenue. As a tax payer, the lower the tax payable is of course the better, because the ultimate goal of an enterprise is to achieve high returns. However, due to the mandatory and obligatory nature of tax payment, enterprises must accept the contract made by the government. On the whole, the two sides of tax collection and payment are not contradictory, because China's tax revenue comes from the people and is used by the people. The government also takes the long-term development of enterprises into consideration when making tax policies.

### **2.4.3 Effect Theory**

The ultimate goal of enterprise tax planning is to produce certain effect. The effect of tax planning is mainly reflected in the following aspects. Firstly, in order to reduce the tax burden cost, enterprises will strive to increase the disposable income, which will stimulate the consumption power and improve the consumption level. Secondly, when an enterprise makes a tax planning plan, it can improve its financial management ability and the professional quality of financial personnel to some extent, which is conducive to the long-term development of the enterprise. Thirdly, various tax policies issued by the government are beneficial to the tax revenue. In order to achieve the goal of reducing the tax burden, the tax planning schemes formulated by enterprises under various tax policies are also beneficial to their own development. All these reflect the effect theory of tax planning.

## **3. Tax Planning Methods of Real Estate Enterprises**

Real estate enterprises are the main body of development and transaction in today's market, and their main product of development and transaction is real estate. Compared with the transaction subjects of other enterprises, real estate has the characteristics of singleness and immobility, and the single transaction amount is large, involving more funds and various tax links. Therefore, the business model of real estate enterprises has the characteristics of immovable products, certain risks,

a wide range of aspects, and many tax-related links. These characteristics affect the tax planning of real estate enterprises to a certain extent. This chapter analyzes the tax planning of real estate enterprises, including tax policies and financial capabilities of enterprises. Firstly, the main tax provisions are introduced, and then the tax planning methods of real estate enterprises are analyzed from the three stages of development and construction, sales and ownership of each case.

### **3.1 Relevant Provisions on Main Tax Categories in Real Estate Business Operation**

Real estate enterprises involve many kinds of taxes in their three main stages of development and construction, sales and retention. In the process of development and construction, it mainly involves deed tax and urban land use tax. In the process of sales, there are mainly value-added tax, income tax, stamp duty, urban construction tax and educational surcharge, etc. In the process of ownership, it mainly involves property tax and urban land use tax.

### **3.2 Tax Planning in Development and Construction Stage**

Real estate enterprises need a lot of funds when they invest in projects, and enterprises can obtain funds through different ways of financing. The main methods are equity financing and debt financing.

#### **3.2.1 Equity Financing**

The characteristics of this financing method are: low risk, the enterprise does not need to pay interest, the enterprise has the possibility of obtaining income. However, this method has significant disadvantages: the cost of raising funds is relatively high, and it reduces the investor's control over the enterprise. Since the dividend paid by the enterprise in equity financing should be paid in the after-tax profit, this expense cannot be deducted before tax.

#### **3.2.2 Debt Financing**

The loan interest and bond interest generated in this process can be included in the current expenses and deducted before tax, so that shareholders can obtain the maximum income, which is the advantage of this financing method. However, the risk of this way of financing is high and there are many restrictive factors. The operating situation of an enterprise also has a certain relationship with the division of interest expense. If the enterprise earns a certain profit, the interest can be expensed; if the enterprise's operating results are not good, the interest can be capitalized.

#### **3.2.3 Pre-Sale Mode**

In the process of development, real estate enterprises need a large amount of funds to operate. If they sell houses while developing and constructing, the enterprises can obtain part of the funds first. With this capital, the enterprises can continue to develop follow-up projects. However, there are two caveats to this approach. First, in the development and construction of these ready to pre-sale housing, enterprises still need to obtain funds through equity financing or debt financing. Therefore, this approach is only applicable to enterprises that have already achieved partial development and construction. Second, pre-sale houses need to obtain the corresponding license, if the enterprise does not meet the pre-sale requirements, will bring great impact.

### **3.3 Tax Planning at Sales Stage**

Sales and self-management are the main sales methods of real estate enterprises. Two different ways, to pay the tax is not the same, so the tax planning under different ways is also different. These two kinds of means have the following to differ: first, whether the estate property right is transferred. The property right of the self-operated real estate will not be transferred, while the sale of the real estate will cause the transfer of the property right. Second, pay different kinds of taxes. Self-operated enterprises do not need to pay land value-added tax, but they need to pay real estate tax and land use tax. If the enterprises sell real estate, they need to pay land tax. In addition, real estate companies can also operate by investing in buyers or setting up subsidiaries. In the confirmation of sales revenue, real estate enterprises can also reduce the value-added tax rate of

enterprises through some methods, so as to reduce the land tax payable.

### **3.3.1 Tax Planning for Establishment of Subsidiaries**

The establishment of a subsidiary refers to the fact that a real estate enterprise establishes a subsidiary before the sale and transfers its related claims and debts to the subsidiary, so as to sell or manage real estate through that. From the point of view of tax law, real estate enterprises transfer their creditor's rights and debts to their subsidiaries, which does not need to pay value-added tax, and new enterprises in certain links can also be exempted from deed tax.

### **3.3.2 Tax Planning of Pricing Strategy**

The pricing strategy of commercial housing is an important means for real estate enterprises to achieve sales profits. Developers often set high prices to make big profits, but don't always meet their sales targets. Because high revenue also means high tax burden, it is necessary to develop a reasonable pricing strategy. Real estate enterprises can carry out tax planning according to a certain proportion of the planned sale price of commercial houses, and sell the houses at a relatively low price. This can produce two aspects of the benefits: on the one hand, let consumers get direct benefits, so that the sales process is more smooth; On the other hand, the tax rate of land value-added tax can be controlled at a lower tax rate to reduce tax costs and increase profits.

## **3.4 Tax Planning in Ownership Stage**

### **3.4.1 Tax Planning of The First Rent After The Sale**

After sale lease back is the most common form of real estate enterprises to rent houses. In after return to rent, real estate enterprises will be commercial housing rental for merchants to use, then merchants and the rental housing to the real estate enterprises, the enterprise will be rental housing again to merchants, in such a cycle of three processes, each rental will pay property tax and value-added tax, so this way after return to rent increases the tax cost, Enterprises in tax planning should take a reasonable way between the lessor and lessee, in order to reduce the cost of tax burden.

### **3.4.2 Break Down Tax Planning for Rental Income**

In the ownership stage, the real estate enterprise itself holds the property right of the enterprise. During this period of ownership, real estate companies can hold the property in different forms, such as self-use or rental. Property tax and urban land use tax are the main taxes to be paid in the tenure stage. The target of property tax is property owners. The tax is based on the residual value of the house or rental income and is levied at the corresponding proportional tax rate, which is also called AD valorem or rent. Businesses can break down the rent they rent to reduce taxes .

## **4. Suggestions and Countermeasures for Optimizing Tax Planning of Real Estate Enterprises**

### **4.1 Mastering Operability of Policy Changes and Programs**

In order to make full use of the current preferential tax policies, real estate enterprises must study and study relevant tax laws and policies in tax planning. With the change of the economic situation, the state will adjust the tax policy accordingly for the need of macro-control policy. Therefore, in tax planning, enterprises should not only consider the current preferential tax policies, but also pay attention to the change and development laws of the tax system and grasp the changing trend of the preferential tax policies.

### **4.2 Face Up to Risks of Tax Planning**

Tax planning needs to make arrangements before taxpayers' economic behavior, and tax planning is a comprehensive very strong financial management activities. Planning process involved in the tax law, statistics, accounting and finance related knowledge, planning environment

and other factors is complex, and often some of the subjective can about events. This makes the tax planning with many uncertain factors. Therefore, in the implementation process of tax planning, we should fully consider the risk of planning.

### **4.3 The Countermeasure of Optimizing Tax Planning of Real Estate Enterprises**

Tax planning is a kind of high-level financial activities. successful tax planning not only requires the planning subject to be guided by correct theories, but also requires it to have the professional knowledge of law, taxation, financial accounting, statistics, finance, mathematics, management and other aspects, as well as the ability of rigorous logical thinking. Therefore, taxpayers can hire perennial tax consultants or hire tax agents to carry out tax planning for taxpayers, but tax planning involves all aspects of taxpayers, there is no internal personnel to cooperate with and intervention is absolutely not feasible. Therefore, china's real estate development enterprises should do a good job in tax planning. On the one hand, they should pay attention to talents and hire tax consultants; on the other hand, they should pay attention to the training of their own employees and carry out effective financial management in combination with the actual situation of the enterprise.

#### **4.3.1 At Financing Stage**

Enterprises through debt financing, on the one hand, can obtain funds in a short period of time, on the other hand, can bring tax saving effect. However, it does not mean that the higher the proportion of debt in the financing of enterprises, the better. If the asset-liability ratio is too high, it will bring greater financial risks. Therefore, a reasonable capital structure should be maintained when choosing the financing method.

#### **4.3.2 At Sales Stage**

Tax planning can be carried out at the sales stage through the spin-off of the new company. Split new company refers to the way in which the real estate enterprise first establishes the new company in the form of split-up and transfers its related creditor's rights and debts to the split-up company. Therefore, real estate enterprises can also be managed or sold through new companies. From the perspective of tax policy, compared with investing in the buyer's company through equity financing, when the creditor's rights and debts are transferred by the split new company, the value-added tax will not be paid, and the new company in the transfer link will be exempted from deed tax. For direct treatment, investment from the buyer and split-up of new companies, the tax burden and the planning process are different. Real estate enterprises should choose the most reasonable way to operate according to the actual situation of the project, so as to not only reduce the tax burden, but also ensure the maximum value of the enterprise.

#### **4.3.3 In Holding Stage**

In the holding stage, because the leasing income involves business tax, additional taxes and real estate tax, etc., the tax burden is heavy, while the property management fee only pays the business tax and additional taxes and taxes. Comparatively speaking, the tax burden of the property management fee is light. Therefore, real estate enterprises can reasonably divide rental income into rental income and property management fee income, and try to increase the proportion of low tax burden, such as property management fee, and reduce the proportion of high tax burden, such as lease income, so as to effectively reduce the tax of enterprise leasing behavior. The concrete operation steps are as follows: First, the real estate enterprise invests to establish the property company; Secondly, the property company to obtain as high a property management qualification as possible, because the higher the qualification, the higher the price of property management can be charged; Finally, by the real estate enterprise to collect rent, by the property management company to collect property management fees.

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