

# Corporate Charitable Donation and Tax Preference Planning

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## ABSTRACT

The motivation of corporate social responsibility is changing from the pressure and power of the market to the initiative of enterprises. Corporate charitable donation is the main way for enterprises to fulfill their social responsibilities. Corporate charitable donation reflects the free and voluntary nature, which can help enterprises better realize tax planning while alleviating the pressure of government revenue and expenditure. China's enterprise income tax law and individual income tax law provide tax relief for taxpayers' charitable donations. Since its establishment, ChuanHua group has actively undertaken social responsibility through charitable donation. This paper analyzes the charitable donation of ChuanHua group, which mainly through the establishment of charitable foundation to facilitate donation channels and joint donation of subordinate enterprises to reduce the group's tax burden and carry out tax preference planning, so as to improve the efficiency of resource allocation.

**KEYWORD:** Charitable donation Corporate Social Responsibility Tax preference planning

## Policy basis of tax preference for charitable donations

The most important thing for enterprises to undertake social responsibility is to create economic benefits for the society at the moral level. Corporate charitable donation is an important way for enterprises to fulfill their social responsibilities. As an important means of the third distribution of social wealth, it has always played a positive role in reducing the pressure of government expenditure and adjusting the gap between the rich and the poor. Corporate philanthropy can promote corporate social responsibility and economic goals from conflict to compatibility. Enterprises' better performance of social responsibilities such as charitable donations can reflect the effectiveness of preferential tax policies in corporate social responsibility and have a strong tax avoidance effect. Most enterprises implement tax preference planning through the tax treatment of goods donation and equity donation. Enterprises that make charitable donations will give priority to the preferential tax policies implemented by local governments and tax departments. The macro tax burden level stipulated by laws and policies is an important factor affecting corporate charitable donations.

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According to the donation law of the people's Republic of China on public welfare undertakings in 2016, the preferential measures for taxpayers' charitable donations shall be carried out in accordance with the provisions of enterprise and individual income tax. China's revised enterprise income tax law in 2017 stipulates that the public welfare donation expenditure within 12% of the total annual profits of enterprises can be deducted from the taxable income, and the excess part will be carried forward in the next three years; The individual income tax law stipulates that the amount of individual donations to public welfare charities shall be deducted within 30% of the individual taxable income, and the excess part cannot be carried forward. The deferred deduction of corporate charitable donations has increased the government's tax preference for charitable donations and encouraged tax paying enterprises and individuals to make public welfare donations, which shows the Chinese government's support for charitable donations from top to bottom. However, the current preferential tax policies also have shortcomings: first, it only stipulates that taxpayers' charitable donations to some charities or sudden disasters can be deducted in full before tax. The low deduction proportion of taxpayers' charitable donations will lead enterprises to

keep the amount of charitable donations within the deductible level in order to reduce taxes, which virtually reduces charitable donations; Secondly, the carrying forward period stipulated in the enterprise income tax law is short, and the enterprise may reduce the expenditure of charitable donations due to the uncertainty of future carrying forward. Therefore, in order to reduce the tax burden, enterprises will use reasonable means to make tax preferential planning for their charitable donations.

In the second year of its establishment, ChuanHua group carried out public welfare donation activities. In the past 30 years, the enterprise has been continuously committed to charity activities, and closely followed the charity policy to establish ChuanHua charity foundation, making outstanding contributions to the development of Zhejiang Province. Taking ChuanHua group as an example, the tax preference planning of charitable donation is more convincing.

### **1. Current situation of charitable donation of ChuanHua group**

Under the leadership of Xu ChuanHua, ChuanHua group was established in Zhejiang Province in 1986. Today, the group's main business is distributed in five fields: chemical industry, logistics, agriculture, science and technology and investment. As a private enterprise, ChuanHua group has more than ten high-tech enterprises, providing products and services to more than 100 regions around the world. The group mainly includes ChuanHua Zhilian (002010) listed on Shenzhen Stock Exchange in 2004 and Xin'an shares (600596) listed on Shanghai Stock Exchange in 2001. Therefore, the financial data of corporate charitable donation in this paper comes from ChuanHua Zhilian and Xin'an shares. The social responsibility of ChuanHua group is mainly reflected in three aspects: happy employees, industrial practice (green chemical industry, low-carbon logistics, caring for agriculture, rural areas and farmers) and public welfare and charity. ChuanHua group will contribute to the society as its own responsibility. Two years after its establishment, the company has carried out public welfare donation. The enterprise has developed for more than 30 years and donated 150 million yuan in disaster relief, agricultural assistance, student assistance, community construction and so on.

From the perspective of the donation expenditure of ChuanHua group in recent ten years, the charitable donation showed a trend of first rising and then falling from 2010 to 2016. Since 2016, the charitable donation has increased year by year, and the charitable donation reached the highest peak in history in 2019. Theoretically, the public welfare

donation of enterprises violates the business goal of maximizing profits. Therefore, the increasing charitable donation of ChuanHua Zhilian is worth exploring. In order to more accurately understand the amount of charitable donations of ChuanHua Zhilian and Xin'an shares, this paper classifies the two enterprises according to the 2012 industry classification of the CSRC, and uses Stata software to make descriptive statistics on the panel data of the total social donations of two listed enterprises in the CSMAR database: transportation, warehousing and postal industry and chemical raw materials and chemical products manufacturing industry. In order to eliminate the influence of extreme values, the tail of the data is reduced by 1% ~ 99%. The results show that the average value of charitable donation in the industry of ChuanHua Zhilian is 26.07 million yuan, the minimum value is 20000 yuan, the maximum value is 825 million yuan, and the maximum donation of ChuanHua Zhilian is 30.5 million yuan, which is in the middle and upper reaches of the industry. The average value of charitable donation in the industry of Xin'an shares is 22.09 million yuan, the minimum value is 20000 yuan, and the maximum value is 1702 million yuan. The charitable donation of Xin'an shares has obviously not reached the industry average level. Looking back on the public welfare process of ChuanHua group, we can conclude that enterprises will spontaneously undertake social responsibility, enjoy the government's preferential tax policies, improve the relationship with the government, and realize the win-win situation of enterprise development and social happiness.

### **2. Analysis on tax preference planning of ChuanHua group**

#### **Establish charitable foundations and broaden donation channels**

The charity law of the people's Republic of China in 2016 is the first law on charity in China, which stipulates that taxpayers should make charitable donations through legal social organizations or national government organs. Under the condition that charitable donations enjoy tax preference, ChuanHua group closely followed the charity law implemented on September 1, 2016 and donated 3 billion cash and securities on October 14, 2016 to establish ChuanHua charitable foundation to focus on social public welfare undertakings. ChuanHua group established Zhejiang ChuanHua charity foundation, which provides a convenient channel for the charitable donation of ChuanHua group. In 2019, Xin'an shares under CHUANHUA Group donated 8 million yuan through Zhejiang ChuanHua charity foundation for the construction of "Xin'an · Anxin clinic" in poor villages, which is in line with the national regulations

on tax exemption for donations for targeted poverty alleviation.

### **Joint donation by subordinate companies to reduce the group's tax burden**

The charitable donation of ChuanHua group is not carried out through one of its subsidiaries, but through the joint donation of several subsidiaries, which avoids the payment of taxes and the future carry-over of the part exceeding the tax exemption after the total charitable donation exceeds 12% of the total profit. For example, in order to obtain a good public welfare image in a certain year, ChuanHua group needs to make an external public welfare donation of 4 million yuan. The total accounting profit of its highly profitable ChuanHua Zhilian in a certain year is 20 million. If the external public welfare donation is completely implemented by ChuanHua Zhilian. According to the provisions of enterprise income tax, the amount of tax exemption for foreign donations this year is  $2000 \times 12\% = 2.4$  million, the excess of 1.6 million needs to pay income tax in this year, and then carry forward in the next three years, and the donation needs to pay 1.6 million in this year  $\times 25\% =$  income tax of 400000 yuan, then the group needs to spend 4.4 million yuan this year. If Xin'an shares realized a total accounting profit of 15 million yuan in the same year, and if all external public welfare donations are borne by Xin'an shares, the tax exemption limit for external donations is 1500 yuan according to the income tax regulations  $\times 12\% = 1.8$  million yuan, and the excess 2.2 million yuan shall be paid income tax in the current year, which shall be deferred and carried forward in the next three years, and 2.2 million yuan shall be paid in the current year  $\times 25\% = 550000$  yuan income tax, and the group's expenditure this year is 4.55 million yuan. If the external public welfare donation is 2.4 million yuan donated by ChuanHua Zhilian and 1.6 million yuan borne by Xin'an shares, the group needs the income tax that does not need to be paid for the public welfare donation this year, so as to establish the public welfare image and contribute to the society while reducing the tax burden of the group.

Charitable donation can improve the efficiency of enterprise resource allocation in obtaining tax preference. Considering the long-term interest motivation, enterprises will combine egoism and altruism and undertake social responsibility such as charitable donation, which will enable enterprises to achieve better development.

### **3. Enlightenment of tax preference planning of charitable donation**

To sum up, this paper believes that the performance of corporate social responsibility such as charitable

donation is beneficial to the development of enterprises. On the one hand, reducing the payment of taxes in combination with tax incentives will also obtain a good reputation and sustainable development in the society. On the other hand, the government is also gradually relaxing the tax preferential policies for enterprises. The development of private enterprises will promote local economic progress and contribute to the performance of local governments. However, if enterprises want to realize charitable donation, they should donate directly to beneficiaries through specific departments, which cannot achieve pre tax relief, which limits the determination of enterprises to promote public welfare undertakings to a certain extent. Therefore, enterprises can establish charitable foundation organizations to provide channels for convenient charitable donations under the condition of fairness and transparency. Carry forward charitable donations in the future, but there are many uncertainties in the future development of enterprises. Therefore, increasing the tax-free amount of external public welfare donations will promote the decision-making of enterprises to fulfill their social responsibilities through charitable donations.

At the same time, most corporate social responsibility behaviors in China may be "self-interest" behaviors that enterprises actively assist the government to undertake in order to "close" the relationship between government and enterprises. The ultimate goal is to obtain more government support through good relationship between government and enterprises, so as to achieve the purpose of advertising, improving reputation and expanding the market. In order to avoid the fulfillment of enterprises' completely egoistic social responsibility and enable enterprises to better fulfill their social responsibility, the government should play an important role in the fulfillment of enterprises' social responsibility, publish the corporate social responsibility report, innovate the responsibility access system, and establish and improve the restraint mechanism and supervision mechanism of corporate social responsibility.

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